

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q/A**  
**(Amendment No. 1)**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended July 1, 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 001-37482

**Kraft Heinz**

**The Kraft Heinz Company**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**One PPG Place, Pittsburgh, Pennsylvania**

(Address of Principal Executive Offices)

**46-2078182**

(I.R.S. Employer Identification No.)

**15222**

(Zip Code)

Registrant's telephone number, including area code: **(412) 456-5700**

**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 website, 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, a 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

Smaller reporting company

Emerging growth company

(Do not check if a smaller reporting 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

As of July 29, 2017, there were 1,218,251,122 shares of the registrant's common stock outstanding.

### Explanatory Note

This Amendment No. 1 on Form 10-Q/A amends our Quarterly Report on Form 10-Q for the quarter ended July 1, 2017, initially filed with the Securities and Exchange Commission on August 4, 2017 (the “Original Form 10-Q”). This Form 10-Q/A amends and restates Items 1, 2, and 4 of Part I of the Original Form 10-Q and no other items in the Original Form 10-Q are amended hereby. In Item 1, this Form 10-Q/A includes our restated condensed consolidated financial statements for the quarter ended July 1, 2017, including certain notes thereto.

The restatement relates to the application of accounting standards update (“ASU”) 2016-15. In August 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-15 related to the classification of certain cash payments and cash receipts on the statement of cash flows. ASU 2016-15 requires companies to classify cash receipts on sold receivables, or consideration received for beneficial interest obtained for transferring trade receivables in securitization transactions, within investing activities in the statement of cash flows. We early adopted ASU 2016-15 during the first quarter of 2017, and this classification should have been made within our statements of cash flows beginning with our Quarterly Report on Form 10-Q for the quarter ended April 1, 2017, including retrospective application. Our financial statements have been restated to correctly classify cash receipts from the payments on sold receivables (which are cash receipts on the underlying trade receivables that have already been securitized) to cash provided by investing activities (from cash provided by operating activities) within our condensed consolidated statements of cash flows. We have restated certain notes to the condensed consolidated financial statements to reflect the impacts of this cash flow correction, including Note 1, *Background and Basis of Presentation*, Note 11, *Financing Arrangements*, and Note 16, *Supplemental Financial Information*.

Correspondingly, this Form 10-Q/A amends and restates Item 2 of Part I, which includes our revised discussion of liquidity and capital resources to reflect the impact of the cash flow correction. Item 4 of Part I includes our revised assessment of the effectiveness of our disclosure controls and procedures. This restatement resulted in the identification of a material weakness in internal control over financial reporting related to our adoption and disclosure of new accounting standards. In addition, pursuant to the rules of the Securities and Exchange Commission, Item 6 of Part II of the Original Form 10-Q has been amended to contain currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

This Form 10-Q/A has not been updated for events occurring after the filing of the Original Form 10-Q, except to reflect the foregoing.

**The Kraft Heinz Company**  
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Unless the context otherwise requires, the terms "we," "us," "our," "Kraft Heinz," and the "Company" each refer to The Kraft Heinz Company.

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements and Supplementary Data.**

The Kraft Heinz Company  
Condensed Consolidated Statements of Income  
(in millions, except per share data)  
(Unaudited)

|   | For the Three Months Ended |                 | For the Six Months Ended |                 |
|---|----------------------------|-----------------|--------------------------|-----------------|
|   | July 1,<br>2017            | July 3,<br>2016 | July 1,<br>2017          | July 3,<br>2016 |
| Net sales   | \$ 6,677                   | \$ 6,793        | \$ 13,041                | \$ 13,363       |
| Cost of products sold                                     | 3,996                      | 4,262           | 8,059                    | 8,454           |
| Gross profit  | 2,681                      | 2,531           | 4,982                    | 4,909           |
| Selling, general and administrative expenses              | 760                        | 895             | 1,510                    | 1,760           |
| Operating income  | 1,921                      | 1,636           | 3,472                    | 3,149           |
| Interest expense  | 307                        | 264             | 620                      | 513             |
| Other expense/(income), net                               | 24                         | 6               | 12                       | (2)             |
| Income/(loss) before income taxes                         | 1,590                      | 1,366           | 2,840                    | 2,638           |
| Provision for/(benefit from) income taxes                 | 430                        | 411             | 789                      | 783             |
| Net income/(loss)   | 1,160                      | 955             | 2,051                    | 1,855           |
| Net income/(loss) attributable to noncontrolling interest | 1                          | 5               | (1)                      | 9               |
| Net income/(loss) attributable to Kraft Heinz             | 1,159                      | 950             | 2,052                    | 1,846           |
| Preferred dividends                                       | —                          | 180             | —                        | 180             |
| Net income/(loss) attributable to common shareholders     | \$ 1,159                   | \$ 770          | \$ 2,052                 | \$ 1,666        |
| Per share data applicable to common shareholders:         |                            |                 |                          |                 |
| Basic earnings/(loss)                                     | \$ 0.95                    | \$ 0.63         | \$ 1.69                  | \$ 1.37         |
| Diluted earnings/(loss)                                   | 0.94                       | 0.63            | 1.67                     | 1.36            |
| Dividends declared  | 0.60                       | 0.575           | 1.20                     | 1.15            |

See accompanying notes to the condensed consolidated financial statements.

The Kraft Heinz Company  
Condensed Consolidated Statements of Comprehensive Income  
(in millions)  
(Unaudited)

|  | For the Three Months Ended |                 | For the Six Months Ended |                 |
|--|----------------------------|-----------------|--------------------------|-----------------|
|  | July 1,<br>2017            | July 3,<br>2016 | July 1,<br>2017          | July 3,<br>2016 |
| Net income/(loss)  | \$ 1,160                   | \$ 955          | \$ 2,051                 | \$ 1,855        |
| Other comprehensive income/(loss), net of tax:                             |                            |                 |                          |                 |
| Foreign currency translation adjustments                                   | 451                        | (418)           | 758                      | (146)           |
| Net deferred gains/(losses) on net investment hedges                       | (152)                      | 105             | (203)                    | 45              |
| Net actuarial gains/(losses) arising during the period                     | 1                          | —               | (9)                      | —               |
| Prior service credits/(costs) arising during the period                    | 1                          | —               | 1                        | —               |
| Reclassification of net postemployment benefit losses/(gains)              | (154)                      | (50)            | (209)                    | (104)           |
| Net deferred gains/(losses) on cash flow hedges                            | (32)                       | (14)            | (66)                     | (32)            |
| Net deferred losses/(gains) on cash flow hedges reclassified to net income | 26                         | 4               | 46                       | (18)            |
| Total other comprehensive income/(loss)                                    | 141                        | (373)           | 318                      | (255)           |
| Total comprehensive income/(loss)  | 1,301                      | 582             | 2,369                    | 1,600           |
| Comprehensive income/(loss) attributable to noncontrolling interest        | 1                          | 5               | (3)                      | 16              |
| Comprehensive income/(loss) attributable to Kraft Heinz                    | \$ 1,300                   | \$ 577          | \$ 2,372                 | \$ 1,584        |

See accompanying notes to the condensed consolidated financial statements.

The Kraft Heinz Company  
Condensed Consolidated Balance Sheets  
(in millions, except share and per share data)  
(Unaudited)

|   | July 1, 2017      | December 31, 2016 |
|---|-------------------|-------------------|
| <b>ASSETS</b>   |                   |                   |
| Cash and cash equivalents   | \$ 1,445          | \$ 4,204          |
| Trade receivables (net of allowances of \$28 at July 1, 2017 and \$20 at December 31, 2016)   | 913               | 769               |
| Sold receivables  | 521               | 129               |
| Inventories   | 3,065             | 2,684             |
| Other current assets  | 1,164             | 967               |
| <b>Total current assets</b>   | <b>7,108</b>      | <b>8,753</b>      |
| Property, plant and equipment, net  | 6,808             | 6,688             |
| Goodwill  | 44,565            | 44,125            |
| Intangible assets, net  | 59,400            | 59,297            |
| Other assets  | 1,535             | 1,617             |
| <b>TOTAL ASSETS</b>   | <b>\$ 119,416</b> | <b>\$ 120,480</b> |
| <b>LIABILITIES AND EQUITY</b>   |                   |                   |
| Commercial paper and other short-term debt  | \$ 1,090          | \$ 645            |
| Current portion of long-term debt   | 19                | 2,046             |
| Trade payables  | 3,888             | 3,996             |
| Accrued marketing   | 494               | 749               |
| Accrued postemployment costs  | 157               | 157               |
| Income taxes payable  | 153               | 255               |
| Interest payable  | 406               | 415               |
| Other current liabilities   | 1,149             | 1,238             |
| <b>Total current liabilities</b>  | <b>7,356</b>      | <b>9,501</b>      |
| Long-term debt  | 29,979            | 29,713            |
| Deferred income taxes   | 20,887            | 20,848            |
| Accrued postemployment costs  | 1,975             | 2,038             |
| Other liabilities   | 673               | 806               |
| <b>TOTAL LIABILITIES</b>  | <b>60,870</b>     | <b>62,906</b>     |
| Commitments and Contingencies (Note 13)   |                   |                   |
| <b>Equity:</b>  |                   |                   |
| Common stock, \$0.01 par value (5,000,000,000 shares authorized; 1,220,835,141 shares issued and 1,218,183,383 shares outstanding at July 1, 2017; 1,218,947,088 shares issued and 1,216,475,740 shares outstanding at December 31, 2016) | 12                | 12                |
| Additional paid-in capital  | 58,674            | 58,593            |
| Retained earnings/(deficit)   | 1,178             | 588               |
| Accumulated other comprehensive income/(losses)   | (1,308)           | (1,628)           |
| Treasury stock, at cost (2,651,758 shares at July 1, 2017 and 2,471,348 shares at December 31, 2016)  | (223)             | (207)             |
| <b>Total shareholders' equity</b>   | <b>58,333</b>     | <b>57,358</b>     |
| Noncontrolling interest   | 213               | 216               |
| <b>TOTAL EQUITY</b>   | <b>58,546</b>     | <b>57,574</b>     |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>\$ 119,416</b> | <b>\$ 120,480</b> |

See accompanying notes to the condensed consolidated financial statements.

The Kraft Heinz Company  
Condensed Consolidated Statement of Equity  
(in millions)  
(Unaudited)

|  | Common Stock | Additional<br>Paid-in Capital | Retained<br>Earnings/(Deficit) | Accumulated Other<br>Comprehensive<br>Income/(Losses) | Treasury Stock  | Noncontrolling<br>Interest | Total Equity     |
|--|--------------|-------------------------------|--------------------------------|---|-----------------|----------------------------|------------------|
| Balance at December 31, 2016   | \$ 12        | \$ 58,593                     | \$ 588                         | \$ (1,628)  | \$ (207)        | \$ 216                     | \$ 57,574        |
| Net income/(loss)  | —            | —                             | 2,052                          | —   | —               | (1)                        | 2,051            |
| Other comprehensive income/(loss)                                    | —            | —                             | —                              | 320   | —               | (2)                        | 318              |
| Dividends declared-common stock                                      | —            | —                             | (1,463)                        | —   | —               | —                          | (1,463)          |
| Exercise of stock options, issuance of other stock awards, and other | —            | 81                            | 1                              | —   | (16)            | —                          | 66               |
| Balance at July 1, 2017  | <u>\$ 12</u> | <u>\$ 58,674</u>              | <u>\$ 1,178</u>                | <u>\$ (1,308)</u>                                     | <u>\$ (223)</u> | <u>\$ 213</u>              | <u>\$ 58,546</u> |

See accompanying notes to the condensed consolidated financial statements.

The Kraft Heinz Company  
Condensed Consolidated Statements of Cash Flows  
(in millions)  
(Unaudited)  
(As Restated)

|  | For the Six Months Ended |                 |
|--|--------------------------|-----------------|
|  | July 1,<br>2017          | July 3,<br>2016 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                   |                          |                 |
| Net income/(loss)  | \$ 2,051                 | \$ 1,855        |
| Adjustments to reconcile net income/(loss) to operating cash flows:            |                          |                 |
| Depreciation and amortization  | 517                      | 720             |
| Amortization of postretirement benefit plans prior service costs/(credits)     | (171)                    | (131)           |
| Equity award compensation expense  | 24                       | 26              |
| Deferred income tax provision/(benefit)  | 269                      | 3               |
| Pension contributions  | (17)                     | (177)           |
| Other items, net   | (23)                     | (97)            |
| Changes in current assets and liabilities:                                     |                          |                 |
| Trade receivables  | (1,598)                  | (994)           |
| Inventories  | (431)                    | (256)           |
| Accounts payable   | 84                       | 90              |
| Other current assets   | (121)                    | (68)            |
| Other current liabilities  | (762)                    | (72)            |
| Net cash provided by/(used for) operating activities                           | (178)                    | 899             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                   |                          |                 |
| Cash receipts on sold receivables  | 1,069                    | 1,205           |
| Capital expenditures   | (690)                    | (514)           |
| Other investing activities, net  | 44                       | 62              |
| Net cash provided by/(used for) investing activities                           | 423                      | 753             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                   |                          |                 |
| Repayments of long-term debt   | (2,032)                  | (12)            |
| Proceeds from issuance of long-term debt                                       | —                        | 6,982           |
| Proceeds from issuance of commercial paper                                     | 4,213                    | 1,939           |
| Repayments of commercial paper   | (3,777)                  | (1,307)         |
| Dividends paid-Series A Preferred Stock  | —                        | (180)           |
| Dividends paid-common stock  | (1,434)                  | (1,334)         |
| Redemption of Series A Preferred Stock   | —                        | (8,320)         |
| Other financing activities, net  | 19                       | 43              |
| Net cash provided by/(used for) financing activities                           | (3,011)                  | (2,189)         |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | 29                       | 1               |
| Cash, cash equivalents, and restricted cash                                    |                          |                 |
| Net increase/(decrease)  | (2,737)                  | (536)           |
| Balance at beginning of period   | 4,255                    | 4,912           |
| Balance at end of period   | \$ 1,518                 | \$ 4,376        |

See accompanying notes to the condensed consolidated financial statements.

The Kraft Heinz Company  
Condensed Consolidated Statements of Cash Flows  
(in millions)  
(Unaudited)  
(As Restated)

|  | For the Six Months Ended |                 |
|--|--------------------------|-----------------|
|  | July 1,<br>2017          | July 3,<br>2016 |
| Non-cash investing activities:   |                          |                 |
| Beneficial interest obtained in exchange for securitized trade receivables | \$ 1,407                 | \$ 1,036        |

See accompanying notes to the condensed consolidated financial statements.

**Note 1. Background and Basis of Presentation**

***Basis of Presentation:***

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, in accordance with the rules of the Securities and Exchange Commission (the “SEC”). In management’s opinion, these interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary to fairly state our results for the periods presented.

The condensed consolidated balance sheet data at December 31, 2016 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. You should read these statements in conjunction with our audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2016. The results for interim periods are not necessarily indicative of future or annual results.

***Restatement of Unaudited Condensed Consolidated Financial Statements:***

We have restated our unaudited condensed consolidated financial statements to correct a misclassification within our condensed consolidated statements of cash flows. The restatement relates to the application of ASU 2016-15, which requires us to classify cash receipts on sold receivables, or consideration received for beneficial interest obtained for transferring trade receivables in securitization transactions, within investing activities, and which requires retrospective application. In addition, in accordance with ASU 2016-15, at inception of the beneficial interest obtained, the interest is no longer presented on a gross basis within net cash provided by/(used for) operating activities and has been disclosed as a non-cash activity. We early adopted ASU 2016-15 during the first quarter of 2017; however, we incorrectly continued to classify cash receipts on sold receivables within operating activities instead of investing activities.

The effects of the restatement on the net cash provided by/(used for) operating activities and net cash provided by/(used for) investing activities of our unaudited condensed consolidated statements of cash flows for the six months ended July 1, 2017 and July 3, 2016 are as follows (in millions):

|  | For the Six Months Ended |            |             |              |            |             |
|--|--------------------------|------------|-------------|--------------|------------|-------------|
|  | July 1, 2017             |            |             | July 3, 2016 |            |             |
|  | As Reported              | Adjustment | As Restated | As Reported  | Adjustment | As Restated |
| Trade receivables                                    | \$ (139)                 | \$ (1,459) | \$ (1,598)  | \$ (226)     | \$ (768)   | \$ (994)    |
| Sold receivables                                     | (390)                    | 390        | —           | 437          | (437)      | —           |
| Net cash provided by/(used for) operating activities | 891                      | (1,069)    | (178)       | 2,104        | (1,205)    | 899         |
| Cash receipts on sold receivables                    | \$ —                     | \$ 1,069   | \$ 1,069    | \$ —         | \$ 1,205   | \$ 1,205    |
| Net cash provided by/(used for) investing activities | (646)                    | 1,069      | 423         | (452)        | 1,205      | 753         |

In connection with this restatement, we also corrected other immaterial cash flow misstatements within operating activities, which overstated the amount of beneficial interest obtained in the non-cash exchange from the securitization of trade receivables. There were no impacts to net cash provided by/(used for) financing activities within our unaudited condensed consolidated statements of cash flows and there was no impact on the net increase/(decrease) in cash, cash equivalents, and restricted cash resulting from restatement.

The impacts of the restatements have been reflected throughout these unaudited financial statements, including the applicable footnotes, as appropriate.

***Organization:***

On July 2, 2015, through a series of transactions, we consummated the merger of Kraft Foods Group, Inc. (“Kraft”) with and into a wholly-owned subsidiary of H.J. Heinz Holding Corporation (“Heinz”) (the “2015 Merger”). At the closing of the 2015 Merger, Heinz was renamed The Kraft Heinz Company (“Kraft Heinz”). Before the consummation of the 2015 Merger, Heinz was controlled by Berkshire Hathaway Inc. and 3G Global Food Holdings, L.P. (“3G Capital”), following their acquisition of H. J. Heinz Company (the “2013 Merger”) on June 7, 2013.

**Accounting Standards Adopted in the Current Year:**

In March 2016, the FASB issued ASU 2016-09 related to equity-based award accounting and presentation. Under this guidance, excess tax benefits upon the exercise of share-based payment awards are recognized in our tax provision rather than within equity. Cash flows related to excess tax benefits are classified as operating activities rather than financing activities. Additionally, cash flows related to employee tax withholdings on restricted share vesting are classified as financing activities. This ASU became effective in the first quarter of 2017. We adopted the guidance related to excess tax benefits on a prospective basis. As a result, we recognized a tax benefit in our condensed consolidated statement of income of \$8 million for the three months and \$16 million for the six months ended July 1, 2017 related to our excess tax benefits upon the exercise of share-based payment awards. We retrospectively adopted the guidance related to cash flow classification of employee tax withholdings on restricted share vesting. This guidance did not have a material impact on our condensed consolidated statement of cash flows for the six months ended July 3, 2016 or on our consolidated statement of cash flows for the year ended December 31, 2016. Our equity award compensation cost continues to reflect estimated forfeitures.

In August 2016, the FASB issued ASU 2016-15 related to the classification of certain cash payments and cash receipts on the statement of cash flows. This ASU provided guidance on eight specific cash flow classification matters, which must be adopted in the same period using a retrospective transition method. We early adopted this ASU in the first quarter of 2017. We now classify consideration received for beneficial interest obtained for transferring trade receivables in securitization transactions as investing activities instead of operating activities. Accordingly, we reclassified \$1.2 billion of cash receipts from the payments on sold receivables (which are cash receipts on the underlying trade receivables that have already been securitized) to cash provided by investing activities (from cash provided by operating activities) for the six months ended July 3, 2016. The related impact of the classification of cash receipts on sold receivables on our consolidated statement of cash flows for the year ended December 31, 2016 was \$2.6 billion. Additionally, we now classify cash payments for debt prepayment and debt extinguishment costs as cash outflows from financing activities rather than cash outflows from operating activities, which had no impact on our condensed consolidated statements of cash flows for the six months ended July 3, 2016 or our consolidated statement of cash flows for the year ended December 31, 2016.

In November 2016, the FASB issued ASU 2016-18 requiring the statement of cash flows to explain the change in restricted cash and restricted cash equivalents, in addition to cash and cash equivalents. We early adopted this ASU in the first quarter of 2017. Accordingly, we restated our cash and cash equivalents balances in the condensed consolidated statements of cash flows to include restricted cash of \$51 million at December 31, 2016, \$140 million at July 3, 2016, and \$75 million at January 3, 2016. Additionally, cash used for investing activities decreased by \$64 million for the six months ended July 3, 2016 and increased by \$24 million for the year ended December 31, 2016. As required by the ASU, we have provided a reconciliation from cash and cash equivalents as presented on our condensed consolidated balance sheets to cash, cash equivalents, and restricted cash as reported on our condensed consolidated statements of cash flows. See Note 3, *Restricted Cash*, for this reconciliation, as well as a discussion of the nature of our restricted cash balances.

**Recently Issued Accounting Standards:**

In May 2014, the FASB issued ASU 2014-09, which superseded previously existing revenue recognition guidance. Under this ASU, companies will apply a principles-based five step model to recognize revenue upon the transfer of promised goods or services to customers and in an amount that reflects the consideration for which the company expects to be entitled to in exchange for those goods or services. This ASU will be effective beginning in the first quarter of our fiscal year 2018. The ASU may be applied using a full retrospective method or a modified retrospective transition method, with a cumulative-effect adjustment as of the date of adoption. We are still evaluating the impact this ASU will have on our financial statements and related disclosures. At this time, we believe the potential impacts on our existing accounting policies may be associated with our customer allowances programs. We will adopt this ASU on the first day of our fiscal year 2018. We are also still evaluating our application method. Our ability to adopt using the full retrospective method is dependent on a number of factors, including finalizing our assessment of information necessary to restate prior period financial statements.

In February 2016, the FASB issued ASU 2016-02, which superseded previously existing leasing guidance. The ASU is intended to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The new guidance requires lessees to reflect most leases on their balance sheets as assets and obligations. This ASU will be effective beginning in the first quarter of our fiscal year 2019. Early adoption is permitted. The new guidance must be adopted using a modified retrospective transition, and provides for certain practical expedients. While we are still evaluating the impact this ASU will have on our financial statements and related disclosures, we have completed our scoping reviews and have made progress in our assessment phase. We have identified our significant leases by geography and by asset type as well as our leasing processes which will be impacted by the new standard. We have also made progress in developing the policy elections we will make upon adoption. We expect that our financial statement disclosures will be expanded to present additional details of our leasing arrangements. At this time, we are unable to reasonably estimate the expected increase in assets and liabilities on our condensed consolidated balance sheets upon adoption. We will adopt this ASU on the first day of our fiscal year 2019.

In October 2016, the FASB issued ASU 2016-16 related to the income tax accounting impacts of intra-entity transfers of assets other than inventory, such as intellectual property and property, plant and equipment. Under the new accounting guidance, current and deferred income taxes should be recognized upon transfer of the assets. Previously, recognition of current and deferred income taxes was prohibited until the asset was sold to an external third party. This ASU will be effective beginning in the first quarter of our fiscal year 2018. Early adoption is permitted but must be adopted in the first interim period of the annual period for which the ASU is adopted. The new guidance must be adopted on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the adoption period. We will adopt this ASU on the first day of our fiscal year 2018. We currently anticipate a cumulative effect adjustment to retained earnings of approximately \$100 million upon adoption.

In January 2017, the FASB issued ASU 2017-04 related to goodwill impairment testing. This ASU eliminates Step 2 from the goodwill impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, the entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. Previously, if the fair value of a reporting unit was lower than its carrying amount (Step 1), an entity was required to calculate any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). Additionally, under the new standard, entities that have reporting units with zero or negative carrying amounts will no longer be required to perform the qualitative assessment to determine whether to perform Step 2 of the goodwill impairment test. As a result, reporting units with zero or negative carrying amounts will generally be expected to pass the simplified impairment test; however, additional disclosure will be required of those entities. This ASU will be effective beginning in the first quarter of our fiscal year 2020. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The new guidance must be adopted on a prospective basis. While we are still evaluating the timing of adoption, we currently do not expect this ASU to have a material impact on our financial statements and related disclosures.

In March 2017, the FASB issued ASU 2017-07 related to the presentation of net periodic benefit cost (pension and postretirement cost). This ASU will be effective in the first quarter of our fiscal year 2018. Under the new guidance, the service cost component of net periodic benefit cost must be presented in the same statement of income line item as other employee compensation costs arising from services rendered by employees during the period. Other components of net periodic benefit cost must be disaggregated from the service cost component in the statements of income and must be presented outside the operating income subtotal. Additionally, only the service cost component will be eligible for capitalization in assets. The new guidance must be applied retrospectively for the statement of income presentation of service cost components and other net periodic benefit cost components and prospectively for the capitalization of service cost components. We will adopt this ASU on the first day of our fiscal year 2018. We are still evaluating the impact this ASU will have on our financial statements and related disclosures.

## **Note 2. Integration and Restructuring Expenses**

As part of our restructuring activities, we incur expenses that qualify as exit and disposal costs under U.S. GAAP. These include severance and employee benefit costs and other exit costs. Severance and employee benefit costs primarily relate to cash severance, non-cash severance, including accelerated equity award compensation expense, and pension and other termination benefits. Other exit costs primarily relate to lease and contract terminations. We also incur expenses that are an integral component of, and directly attributable to, our restructuring activities, which do not qualify as exit and disposal costs under U.S. GAAP. These include asset-related costs and other implementation costs. Asset-related costs primarily relate to accelerated depreciation and asset impairment charges. Other implementation costs primarily relate to start-up costs of new facilities, professional fees, asset relocation costs, and costs to exit facilities.

Employee severance and other termination benefit packages are primarily determined based on established benefit arrangements, local statutory requirements, or historical benefit practices. We recognize the contractual component of these benefits when payment is probable and estimable; additional elements of severance and termination benefits associated with non-recurring benefits are

recognized ratably over each employee's required future service period. Charges for accelerated depreciation are recognized on long-lived assets that will be taken out of service before the end of their normal service, in which case depreciation estimates are revised to reflect the use of the asset over its shortened useful life. Asset impairments establish a new fair value basis for assets held for disposal or sale and those assets are written down to expected net realizable value if carrying value exceeds fair value. All other costs are recognized as incurred.

**Integration Program:**

Following the 2015 Merger, we announced a multi-year program (the "Integration Program") designed to reduce costs, streamline and simplify our operating structure as well as optimize our production and supply chain network across our businesses in the United States and Canada segments. We expect to incur pre-tax costs of \$2.0 billion related to the Integration Program, with approximately 60% reflected in cost of products sold within our United States and Canada segments. These pre-tax costs are comprised of the following categories:

- Organization costs (\$400 million) associated with our plans to streamline and simplify our operating structure, resulting in workforce reduction (primarily severance and employee benefit costs).
- Footprint costs (\$1.2 billion) associated with our plans to optimize our production and supply chain network, resulting in workforce reduction and facility closures and consolidations (primarily asset-related costs and severance and employee benefit costs).
- Other costs (\$400 million) incurred as a direct result of integration activities, including other exit costs (primarily lease and contract terminations) and other implementation costs (primarily professional services and other third-party fees).

Overall, as part of the Integration Program, we expect to eliminate 5,150 positions, close net six factories, and consolidate our distribution network. At July 1, 2017, the total Integration Program liability related primarily to the elimination of general salaried and factory positions across the United States and Canada, 4,100 of whom have left the company by July 1, 2017. Additionally, as of July 1, 2017, we have closed net five factories.

Related to the Integration Program, we recognized gains of \$49 million for the three months and expenses of \$78 million for the six months ended July 1, 2017 and expenses of \$259 million for the three months and \$500 million for the six months ended July 3, 2016. As of July 1, 2017, we have incurred approximately \$1.8 billion of cumulative costs under the Integration Program, including \$576 million of severance and employee benefit costs, \$762 million of non-cash asset-related costs, \$343 million of other implementation costs, and \$113 million of other exit costs. We expect that approximately 60% of the Integration Program expenses will be cash expenditures.

The net gain of \$49 million in the current period was driven by a curtailment gain of \$168 million, which was classified as Integration Program expenses and more than offset other such expenses for the period. The curtailment gain resulted from postretirement plan remeasurements. These remeasurements were triggered by the number of cumulative headcount reductions after the closure of certain U.S. factories in the second quarter of 2017. See Note 8, *Postemployment Benefits*, and Note 9, *Accumulated Other Comprehensive Income/(Losses)*, for the related curtailment gain.

Our liability balance for Integration Program costs that qualify as exit and disposal costs under U.S. GAAP (i.e., severance and employee benefit costs and other exit costs), was (in millions):

|                              | Severance and<br>Employee Benefit<br>Costs | Other Exit Costs <sup>(a)</sup> | Total         |
|------------------------------|--|---------------------------------|---------------|
| Balance at December 31, 2016 | \$ 99                                      | \$ 10                           | \$ 109        |
| Charges/(credits)            | (105)                                      | 18                              | (87)          |
| Cash payments                | (47)                                       | (3)                             | (50)          |
| Non-cash utilization         | 154  | (4)                             | 150           |
| Balance at July 1, 2017      | <u>\$ 101</u>                              | <u>\$ 21</u>                    | <u>\$ 122</u> |

<sup>(a)</sup> Other exit costs primarily consist of lease and contract terminations.

We expect the liability for severance and employee benefit costs as of July 1, 2017 to be paid in 2017. The liability for other exit costs primarily relates to lease obligations associated with restructuring programs executed prior to the 2015 Merger. The cash impact of these obligations will continue for the duration of the lease terms, which expire between 2019 and 2026.

**Restructuring Activities:**

In addition to our Integration Program in North America, we have a small number of other restructuring programs globally, which are focused primarily on workforce reduction and factory closure and consolidation. Related to these programs, approximately 400 employees left the company during the six months ended July 1, 2017. These programs resulted in expenses of \$43 million for the three months ended July 1, 2017, including \$19 million of severance and employee benefit costs, \$15 million of other implementation costs, and \$9 million of other exit costs, and \$64 million for the six months ended July 1, 2017, including \$29 million of severance and employee benefit costs, \$1 million of non-cash asset-related costs, \$25 million of other implementation costs, and \$9 million of other exit costs. Such expenses totaled \$25 million for the three months and \$44 million for the six months ended July 3, 2016.

Our liability balance for restructuring project costs that qualify as exit and disposal costs under U.S. GAAP (i.e., severance and employee benefit costs and other exit costs), was (in millions):

|                              | Severance and<br>Employee Benefit<br>Costs | Other Exit Costs <sup>(a)</sup> | Total        |
|------------------------------|--|---------------------------------|--------------|
| Balance at December 31, 2016 | \$ 12                                      | \$ 25                           | \$ 37        |
| Charges/(credits)            | 29   | 9                               | 38           |
| Cash payments                | (25)                                       | (4)                             | (29)         |
| Non-cash utilization         | (6)  | 1                               | (5)          |
| Balance at July 1, 2017      | <u>\$ 10</u>                               | <u>\$ 31</u>                    | <u>\$ 41</u> |

<sup>(a)</sup> Other exit costs primarily consist of lease and contract terminations.

We expect the liability for severance and employee benefit costs as of July 1, 2017 to be paid in 2017. The liability for other exit costs primarily relates to lease obligations associated with restructuring programs executed prior to the 2015 Merger. The cash impact of these obligations will continue for the duration of the lease terms, which expire between 2017 and 2026.

**Total Integration and Restructuring:**

Total expenses related to the Integration Program and restructuring activities recorded in cost of products sold and selling, general and administrative expenses ("SG&A") for the years presented were (in millions):

|   | For the Three Months Ended |                 | For the Six Months Ended |                 |
|---|----------------------------|-----------------|--------------------------|-----------------|
|   | July 1,<br>2017            | July 3,<br>2016 | July 1,<br>2017          | July 3,<br>2016 |
| Severance and employee benefit costs - COGS | \$ (136)                   | \$ 23           | \$ (117)                 | \$ 29           |
| Severance and employee benefit costs - SG&A | 16                         | 14              | 41                       | 46              |
| Asset-related costs - COGS                  | 25                         | 137             | 100                      | 279             |
| Asset-related costs - SG&A                  | 6                          | 12              | 13                       | 26              |
| Other costs - COGS                          | 52                         | 39              | 61                       | 72              |
| Other costs - SG&A                          | 31                         | 59              | 44                       | 92              |
|   | <u>\$ (6)</u>              | <u>\$ 284</u>   | <u>\$ 142</u>            | <u>\$ 544</u>   |

We do not include Integration Program and restructuring expenses within Segment Adjusted EBITDA (as defined in Note 15, *Segment Reporting*). The pre-tax impact of allocating such expenses to our segments would have been (in millions):

|                            | For the Three Months Ended |                 | For the Six Months Ended |                 |
|----------------------------|----------------------------|-----------------|--------------------------|-----------------|
|                            | July 1,<br>2017            | July 3,<br>2016 | July 1,<br>2017          | July 3,<br>2016 |
| United States              | \$ (65)                    | \$ 247          | \$ 43                    | \$ 446          |
| Canada                     | 14                         | 9               | 24                       | 27              |
| Europe                     | 25                         | 13              | 39                       | 28              |
| Rest of World              | 11                         | —               | 11                       | —               |
| General corporate expenses | 9                          | 15              | 25                       | 43              |
|                            | <u>\$ (6)</u>              | <u>\$ 284</u>   | <u>\$ 142</u>            | <u>\$ 544</u>   |

### **Note 3. Restricted Cash**

The following table provides a reconciliation of cash and cash equivalents, as reported on our condensed consolidated balance sheets, to cash, cash equivalents, and restricted cash, as reported on our condensed consolidated statements of cash flows (in millions):

|   | July 1, 2017    | December 31, 2016 |
|---|-----------------|-------------------|
| Cash and cash equivalents                             | \$ 1,445        | \$ 4,204          |
| Restricted cash included in other assets (current)    | 73              | 42                |
| Restricted cash included in other assets (noncurrent) | —               | 9                 |
| Cash, cash equivalents, and restricted cash           | <u>\$ 1,518</u> | <u>\$ 4,255</u>   |

Our restricted cash primarily relates to withholding taxes on our common stock dividends to our only significant international shareholder, 3G Capital.

### **Note 4. Inventories**

Inventories at July 1, 2017 and December 31, 2016 were (in millions):

|                           | July 1, 2017    | December 31, 2016 |
|---------------------------|-----------------|-------------------|
| Packaging and ingredients | \$ 678          | \$ 542            |
| Work in process           | 495             | 388               |
| Finished product          | 1,892           | 1,754             |
| Inventories               | <u>\$ 3,065</u> | <u>\$ 2,684</u>   |

The increase in inventories in the second quarter of 2017 is primarily due to seasonality as well as higher key commodity costs within the U.S.

### **Note 5. Goodwill and Intangible Assets**

#### ***Goodwill:***

Changes in the carrying amount of goodwill, by segment, were (in millions):

|                              | United States    | Canada          | Europe          | Rest of World   | Total            |
|------------------------------|------------------|-----------------|-----------------|-----------------|------------------|
| Balance at December 31, 2016 | \$ 33,696        | \$ 4,913        | \$ 2,778        | \$ 2,738        | \$ 44,125        |
| Translation adjustments      | —                | 177             | 168             | 95              | 440              |
| Balance at July 1, 2017      | <u>\$ 33,696</u> | <u>\$ 5,090</u> | <u>\$ 2,946</u> | <u>\$ 2,833</u> | <u>\$ 44,565</u> |

We test goodwill for impairment at least annually in the second quarter or when a triggering event occurs. We performed our 2017 annual impairment test as of April 2, 2017. As a result of our 2017 annual impairment test, there was no impairment of goodwill. Each of our goodwill reporting units had excess fair value over its carrying value of at least 10% as of April 2, 2017.

Our goodwill balance consists of 18 reporting units and had an aggregate carrying value of \$44.6 billion as of July 1, 2017. As a majority of our goodwill was recently recorded in connection with the 2013 Merger and the 2015 Merger, representing fair values as of those merger dates, there was not a significant excess of fair values over carrying values as of April 2, 2017. We have a risk of future impairment to the extent that individual reporting unit performance does not meet our projections. Additionally, if our current assumptions and estimates, including projected revenues and income growth rates, terminal growth rates, competitive and consumer trends, market-based discount rates, and other market factors, are not met, or if valuation factors outside of our control change unfavorably, the estimated fair value of our goodwill could be adversely affected, leading to a potential impairment in the future. There were no accumulated impairment losses to goodwill as of July 1, 2017.

**Indefinite-lived intangible assets:**

Indefinite-lived intangible assets, which primarily consisted of trademarks, were (in millions):

|   |    |        |
|---|----|--------|
| Balance at December 31, 2016                            | \$ | 53,307 |
| Translation adjustments                                 |    | 237    |
| Impairment losses on indefinite-lived intangible assets |    | (48)   |
| Balance at July 1, 2017                                 | \$ | 53,496 |

We test indefinite-lived intangible assets for impairment at least annually in the second quarter or when a triggering event occurs. We performed our 2017 annual impairment test as of April 2, 2017. As a result of our 2017 annual impairment test, we recognized a non-cash impairment loss of \$48 million in SG&A for the three and six months ended July 1, 2017. This loss was due to continued declines in nutritional beverages in India. The loss was recorded in our Europe segment as the related trademark is owned by our Italian subsidiary. Each of our other brands had excess fair value over its carrying value of at least 10% as of April 2, 2017.

Our indefinite-lived intangible assets primarily consist of a large number of individual brands and had an aggregate carrying value of \$53.5 billion as of July 1, 2017. As a majority of our indefinite-lived intangible assets were recently recorded in connection with the 2013 Merger and the 2015 Merger, representing fair values as of those merger dates, there was not a significant excess of fair values over carrying values as of April 2, 2017. We have a risk of future impairment to the extent individual brand performance does not meet our projections. Additionally, if our current assumptions and estimates, including projected revenues and income growth rates, terminal growth rates, competitive and consumer trends, market-based discount rates, and other market factors, are not met, or if valuation factors outside of our control change unfavorably, the estimated fair values of our indefinite-lived intangible assets could be adversely affected, leading to potential impairments in the future.

**Definite-lived intangible assets:**

Definite-lived intangible assets were (in millions):

|                         | July 1, 2017 |                          |          | December 31, 2016 |                          |          |
|-------------------------|--------------|--------------------------|----------|-------------------|--------------------------|----------|
|                         | Gross        | Accumulated Amortization | Net      | Gross             | Accumulated Amortization | Net      |
| Trademarks              | \$ 2,362     | \$ (226)                 | \$ 2,136 | \$ 2,337          | \$ (172)                 | \$ 2,165 |
| Customer-related assets | 4,216        | (458)                    | 3,758    | 4,184             | (369)                    | 3,815    |
| Other                   | 14           | (4)                      | 10       | 13                | (3)                      | 10       |
|                         | \$ 6,592     | \$ (688)                 | \$ 5,904 | \$ 6,534          | \$ (544)                 | \$ 5,990 |

Amortization expense for definite-lived intangible assets was \$77 million for the three months and \$144 million for the six months ended July 1, 2017 and was \$66 million for the three months and \$132 million for the six months ended July 3, 2016. Aside from amortization expense, the changes in definite-lived intangible assets from December 31, 2016 to July 1, 2017 reflect the impact of foreign currency. We estimate that annual amortization expense for definite-lived intangible assets for each of the next five years will be approximately \$270 million.

**Note 6. Income Taxes**

The provision for income taxes consists of provisions for federal, state, and foreign income taxes. We operate in an international environment; accordingly, the consolidated effective tax rate is a composite rate reflecting the earnings in various locations and the applicable tax rates. Additionally, our quarterly income tax provision is determined based on our estimated full year effective tax rate, adjusted for tax attributable to infrequent or unusual items, which are recognized on a discrete period basis in the income tax provision for the period in which they occur.

Our effective tax rate was 27.1% for the three months ended July 1, 2017 compared to 30.1% for the three months ended July 3, 2016. The decrease in our effective tax rate was driven by the favorable impact of net discrete items, primarily related to reversals of uncertain tax position reserves in the U.S., and a favorable mix of income among our foreign subsidiaries. The favorable impact of current year net discrete items and foreign subsidiary income mix was partially offset by the unfavorable impact of a higher percentage of U.S. income reflected in our estimated full year effective tax rate for 2017 compared to 2016.

Our effective tax rate was 27.8% for the six months ended July 1, 2017 compared to 29.7% for the six months ended July 3, 2016. The decrease in our effective tax rate was driven by the favorable impact of net discrete items, primarily related to reversals of uncertain tax position reserves in foreign jurisdictions and the U.S., and a favorable mix of income among our foreign subsidiaries. The favorable impact of current year net discrete items and foreign subsidiary income mix was partially offset by the unfavorable impact of a higher percentage of U.S. income reflected in our estimated full year effective tax rate for 2017 compared to 2016.

## Note 7. Employees' Stock Incentive Plans

Our annual equity award grants and vesting occurred in the first quarter of 2017. Other off-cycle equity grants may occur throughout the year.

### Stock Options:

Our stock option activity and related information was:

|                                  | Number of Stock Options | Weighted Average Exercise Price (per share) |
|----------------------------------|-------------------------|---|
| Outstanding at December 31, 2016 | 20,560,140              | \$ 37.39                                    |
| Granted                          | 1,219,904               | 91.40                                       |
| Forfeited                        | (387,121)               | 51.18                                       |
| Exercised                        | (1,761,346)             | 32.65                                       |
| Outstanding at July 1, 2017      | 19,631,577              | 40.91                                       |

The aggregate intrinsic value of stock options exercised during the period was \$103 million for the six months ended July 1, 2017.

### Restricted Stock Units:

Our restricted stock unit ("RSU") activity and related information was:

|                                  | Number of Units | Weighted Average Grant Date Fair Value (per share) |
|----------------------------------|-----------------|--|
| Outstanding at December 31, 2016 | 806,744         | \$ 71.95   |
| Granted                          | 1,670,051       | 85.03  |
| Forfeited                        | (146,922)       | 82.38  |
| Vested                           | (126,707)       | 72.96  |
| Outstanding at July 1, 2017      | 2,203,166       | 81.37  |

The aggregate fair value of RSUs that vested during the period was \$11 million for the six months ended July 1, 2017.

## Note 8. Postemployment Benefits

### Pension Plans

#### Components of Net Pension Cost/(Benefit):

Net pension cost/(benefit) consisted of the following (in millions):

|   | For the Three Months Ended |              |                |              | For the Six Months Ended |              |                |              |
|---|----------------------------|--------------|----------------|--------------|--------------------------|--------------|----------------|--------------|
|   | U.S. Plans                 |              | Non-U.S. Plans |              | U.S. Plans               |              | Non-U.S. Plans |              |
|   | July 1, 2017               | July 3, 2016 | July 1, 2017   | July 3, 2016 | July 1, 2017             | July 3, 2016 | July 1, 2017   | July 3, 2016 |
| Service cost                                | \$ 2                       | \$ 4         | \$ 4           | \$ 6         | \$ 5                     | \$ 7         | \$ 8           | \$ 12        |
| Interest cost                               | 46                         | 53           | 16             | 22           | 91                       | 106          | 32             | 43           |
| Expected return on plan assets              | (66)                       | (74)         | (43)           | (47)         | (131)                    | (148)        | (86)           | (93)         |
| Amortization of unrecognized losses/(gains) | —                          | —            | 1              | —            | —                        | —            | 1              | —            |
| Settlements                                 | —                          | —            | —              | —            | —                        | (6)          | —              | —            |
| Special/contractual termination benefits    | 6                          | —            | 2              | —            | 13                       | —            | 8              | —            |
| Other                                       | —                          | —            | —              | —            | 2                        | —            | (9)            | —            |
| Net pension cost/(benefit)                  | \$ (12)                    | \$ (17)      | \$ (20)        | \$ (19)      | \$ (20)                  | \$ (41)      | \$ (46)        | \$ (38)      |

We capitalized a portion of net pension cost/(benefit) into inventory based on our production activities. These amounts are included in the table above.

#### Employer Contributions:

During the first six months of 2017, we contributed \$17 million to our non-U.S. pension plans. We did not contribute to our U.S. pension plans in the first six months of 2017. Based on our contribution strategy, we plan to make further contributions of approximately \$150 million to our U.S. plans and approximately \$40 million to our non-U.S. plans during the remainder of 2017. However, our actual contributions and plans may change due to many factors, including timing of regulatory approval for the windup of our Canadian plans; changes in tax, employee benefit, or other laws; tax deductibility; significant differences between expected and actual pension asset performance or interest rates; or other factors.

### Postretirement Plans

#### Components of Net Postretirement Cost/(Benefit):

Net postretirement cost/(benefit) consisted of the following (in millions):

|   | For the Three Months Ended |              | For the Six Months Ended |              |
|---|----------------------------|--------------|--------------------------|--------------|
|   | July 1, 2017               | July 3, 2016 | July 1, 2017             | July 3, 2016 |
| Service cost                                  | \$ 3                       | \$ 4         | \$ 5                     | \$ 8         |
| Interest cost                                 | 12                         | 14           | 25                       | 30           |
| Amortization of prior service costs/(credits) | (83)                       | (80)         | (173)                    | (162)        |
| Curtailments                                  | (168)                      | —            | (168)                    | —            |
| Net postretirement cost/(benefit)             | \$ (236)                   | \$ (62)      | \$ (311)                 | \$ (124)     |

We capitalized a portion of net postretirement cost/(benefit) into inventory based on our production activities. These amounts are included in the table above.

In the second quarter of 2017, we remeasured certain of our postretirement plans and recognized a curtailment gain of \$168 million. These remeasurements were triggered by the number of cumulative headcount reductions after the closure of certain U.S. factories in the second quarter of 2017. The headcount reductions were part of our ongoing Integration Program. See Note 2, *Integration and Restructuring Expenses*, for additional information.

#### Note 9. Accumulated Other Comprehensive Income/(Losses)

The components of, and changes in, accumulated other comprehensive income/(losses), net of tax, were as follows (in millions):

|  | Foreign Currency Translation Adjustments | Net Postemployment Benefit Plan Adjustments | Net Cash Flow Hedge Adjustments | Total      |
|--|--|---|---------------------------------|------------|
| <b>Balance as of December 31, 2016</b>                                     | \$ (2,412)                               | \$ 772                                      | \$ 12                           | \$ (1,628) |
| Foreign currency translation adjustments                                   | 760                                      | —   | —                               | 760        |
| Net deferred gains/(losses) on net investment hedges                       | (203)                                    | —   | —                               | (203)      |
| Net postemployment benefit gains/(losses) arising during the period        | —  | (8)   | —                               | (8)        |
| Reclassification of net postemployment benefit losses/(gains)              | —  | (209)                                       | —                               | (209)      |
| Net deferred gains/(losses) on cash flow hedges                            | —  | —   | (66)                            | (66)       |
| Net deferred losses/(gains) on cash flow hedges reclassified to net income | —  | —   | 46                              | 46         |
| Total other comprehensive income/(loss)                                    | 557                                      | (217)                                       | (20)                            | 320        |
| <b>Balance as of July 1, 2017</b>  | \$ (1,855)                               | \$ 555                                      | \$ (8)                          | \$ (1,308) |

Reclassification of net postemployment benefit losses/(gains) included amounts reclassified to net income and amounts reclassified into inventory (consistent with our capitalization policy).

The gross amount and related tax benefit/(expense) recorded in, and associated with, each component of other comprehensive income/(loss) were as follows (in millions):

|  | For the Three Months Ended |      |                   |                   |      |                   |
|--|----------------------------|------|-------------------|-------------------|------|-------------------|
|  | July 1, 2017               |      |                   | July 3, 2016      |      |                   |
|  | Before Tax Amount          | Tax  | Net of Tax Amount | Before Tax Amount | Tax  | Net of Tax Amount |
| Foreign currency translation adjustments                                   | \$ 451                     | \$ — | \$ 451            | \$ (418)          | \$ — | \$ (418)          |
| Net deferred gains/(losses) on net investment hedges                       | (290)                      | 138  | (152)             | 194               | (89) | 105               |
| Net actuarial gains/(losses) arising during the period                     | 2                          | (1)  | 1                 | —                 | —    | —                 |
| Prior service credits/(costs) arising during the period                    | 2                          | (1)  | 1                 | —                 | —    | —                 |
| Reclassification of net postemployment benefit losses/(gains)              | (250)                      | 96   | (154)             | (80)              | 30   | (50)              |
| Net deferred gains/(losses) on cash flow hedges                            | (32)                       | —    | (32)              | (17)              | 3    | (14)              |
| Net deferred losses/(gains) on cash flow hedges reclassified to net income | 28                         | (2)  | 26                | 6                 | (2)  | 4                 |

|  | For the Six Months Ended |      |                   |                   |      |                   |
|--|--------------------------|------|-------------------|-------------------|------|-------------------|
|  | July 1, 2017             |      |                   | July 3, 2016      |      |                   |
|  | Before Tax Amount        | Tax  | Net of Tax Amount | Before Tax Amount | Tax  | Net of Tax Amount |
| Foreign currency translation adjustments                                   | \$ 760                   | \$ — | \$ 760            | \$ (153)          | \$ — | \$ (153)          |
| Net deferred gains/(losses) on net investment hedges                       | (368)                    | 165  | (203)             | 110               | (65) | 45                |
| Net actuarial gains/(losses) arising during the period                     | (10)                     | 1    | (9)               | —                 | —    | —                 |
| Prior service credits/(costs) arising during the period                    | 2                        | (1)  | 1                 | —                 | —    | —                 |
| Reclassification of net postemployment benefit losses/(gains)              | (340)                    | 131  | (209)             | (168)             | 64   | (104)             |
| Net deferred gains/(losses) on cash flow hedges                            | (71)                     | 5    | (66)              | (45)              | 13   | (32)              |
| Net deferred losses/(gains) on cash flow hedges reclassified to net income | 45                       | 1    | 46                | (20)              | 2    | (18)              |

The amounts reclassified from accumulated other comprehensive income/(losses) were as follows (in millions):

| Accumulated Other Comprehensive Income/(Losses) Component     | Reclassified from Accumulated Other Comprehensive Income/(Losses) |                |                          |                 | Affected Line Item in the Statement Where Net Income/(Loss) is Presented |
|---|---|----------------|--------------------------|-----------------|--|
|   | For the Three Months Ended  |                | For the Six Months Ended |                 |  |
|   | July 1, 2017  | July 3, 2016   | July 1, 2017             | July 3, 2016    |  |
| Losses/(gains) on cash flow hedges:                           |   |                |                          |                 |  |
| Foreign exchange contracts                                    | \$ —  | \$ (2)         | \$ —                     | \$ (3)          | Net sales  |
| Foreign exchange contracts                                    | (4)   | (4)            | (3)                      | (33)            | Cost of products sold  |
| Foreign exchange contracts                                    | 31  | 11             | 46                       | 14              | Other expense/(income), net  |
| Interest rate contracts                                       | 1   | 1              | 2                        | 2               | Interest expense   |
| Losses/(gains) on cash flow hedges before income taxes        | 28  | 6              | 45                       | (20)            |  |
| Losses/(gains) on cash flow hedges, income taxes              | (2)   | (2)            | 1                        | 2               |  |
| Losses/(gains) on cash flow hedges                            | <u>\$ 26</u>  | <u>\$ 4</u>    | <u>\$ 46</u>             | <u>\$ (18)</u>  |  |
| Losses/(gains) on postemployment benefits:                    |   |                |                          |                 |  |
| Amortization of unrecognized losses/(gains)                   | \$ 1  | \$ —           | \$ 1                     | \$ —            | (a)  |
| Amortization of prior service costs/(credits)                 | (83)  | (80)           | (173)                    | (162)           | (a)  |
| Settlement and curtailments losses/(gains)                    | (168)   | —              | (168)                    | (6)             | (a)  |
| Losses/(gains) on postemployment benefits before income taxes | (250)   | (80)           | (340)                    | (168)           |  |
| Losses/(gains) on postemployment benefits, income taxes       | 96  | 30             | 131                      | 64              |  |
| Losses/(gains) on postemployment benefits                     | <u>\$ (154)</u>   | <u>\$ (50)</u> | <u>\$ (209)</u>          | <u>\$ (104)</u> |  |

(a) These components are included in the computation of net periodic postemployment benefit costs. See Note 8, *Postemployment Benefits*, for additional information.

In this note we have excluded activity and balances related to noncontrolling interest (which was primarily comprised of foreign currency translation adjustments) due to its insignificance.

#### Note 10. Financial Instruments

See our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2016 for additional information on our overall risk management strategies, our use of derivatives, and our related accounting policies.

##### Derivative Volume:

The notional values of our derivative instruments were (in millions):

|                            | Notional Amount |                   |
|----------------------------|-----------------|-------------------|
|                            | July 1, 2017    | December 31, 2016 |
| Commodity contracts        | \$ 473          | \$ 459            |
| Foreign exchange contracts | 3,676           | 2,997             |
| Cross-currency contracts   | 2,950           | 3,173             |

**Fair Value of Derivative Instruments:**

The fair values and the levels within the fair value hierarchy of derivative instruments recorded on the consolidated balance sheets were (in millions):

|   | July 1, 2017   |             |   |             |   |             |                  |             |
|---|--|-------------|---|-------------|---|-------------|------------------|-------------|
|   | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) |             | Significant Other Observable Inputs (Level 2) |             | Significant Unobservable Inputs (Level 3) |             | Total Fair Value |             |
|   | Assets   | Liabilities | Assets  | Liabilities | Assets                                    | Liabilities | Assets           | Liabilities |
| <b>Derivatives designated as hedging instruments:</b>     |  |             |   |             |   |             |                  |             |
| Foreign exchange contracts                                | \$ —   | \$ —        | \$ 12   | \$ 32       | \$ —                                      | \$ —        | \$ 12            | \$ 32       |
| Cross-currency contracts                                  | —  | —           | 439   | —           | —   | —           | 439              | —           |
| <b>Derivatives not designated as hedging instruments:</b> |  |             |   |             |   |             |                  |             |
| Commodity contracts                                       | 15   | 26          | 1   | 1           | —   | —           | 16               | 27          |
| Foreign exchange contracts                                | —  | —           | 21  | 1           | —   | —           | 21               | 1           |
| Cross-currency contracts                                  | —  | —           | —   | —           | —   | —           | —                | —           |
| Total fair value  | \$ 15  | \$ 26       | \$ 473  | \$ 34       | \$ —                                      | \$ —        | \$ 488           | \$ 60       |

  

|   | December 31, 2016  |             |   |             |   |             |                  |             |
|---|--|-------------|---|-------------|---|-------------|------------------|-------------|
|   | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) |             | Significant Other Observable Inputs (Level 2) |             | Significant Unobservable Inputs (Level 3) |             | Total Fair Value |             |
|   | Assets   | Liabilities | Assets  | Liabilities | Assets                                    | Liabilities | Assets           | Liabilities |
| <b>Derivatives designated as hedging instruments:</b>     |  |             |   |             |   |             |                  |             |
| Foreign exchange contracts                                | \$ —   | \$ —        | \$ 69   | \$ 13       | \$ —                                      | \$ —        | \$ 69            | \$ 13       |
| Cross-currency contracts                                  | —  | —           | 580   | 36          | —   | —           | 580              | 36          |
| <b>Derivatives not designated as hedging instruments:</b> |  |             |   |             |   |             |                  |             |
| Commodity contracts                                       | 28   | 7           | —   | —           | —   | —           | 28               | 7           |
| Foreign exchange contracts                                | —  | —           | 35  | 30          | —   | —           | 35               | 30          |
| Cross-currency contracts                                  | —  | —           | 44  | —           | —   | —           | 44               | —           |
| Total fair value  | \$ 28  | \$ 7        | \$ 728  | \$ 79       | \$ —                                      | \$ —        | \$ 756           | \$ 86       |

Our derivative financial instruments are subject to master netting arrangements that allow for the offset of assets and liabilities in the event of default or early termination of the contract. We elect to record the gross assets and liabilities of our derivative financial instruments on the consolidated balance sheets. If the derivative financial instruments had been netted on the consolidated balance sheets, the asset and liability positions each would have been reduced by \$44 million at July 1, 2017 and \$67 million at December 31, 2016. No material amounts of collateral were received or posted on our derivative assets and liabilities at July 1, 2017.

Level 1 financial assets and liabilities consist of commodity future and options contracts and are valued using quoted prices in active markets for identical assets and liabilities.

Level 2 financial assets and liabilities consist of commodity forwards, foreign exchange forwards, and cross-currency swaps. Commodity forwards are valued using an income approach based on the observable market commodity index prices less the contract rate multiplied by the notional amount. Foreign exchange forwards are valued using an income approach based on observable market forward rates less the contract rate multiplied by the notional amount. Cross-currency swaps are valued based on observable market spot and swap rates.

Our calculation of the fair value of financial instruments takes into consideration the risk of nonperformance, including counterparty credit risk.

There have been no transfers between Levels 1, 2, and 3 in any period presented.

The fair values of our derivative assets are recorded within other current assets and other assets. The fair values of our liability derivatives are recorded within other current liabilities and other liabilities.

**Net Investment Hedging:**

At July 1, 2017, the principal amounts of foreign denominated debt designated as net investment hedges totaled €2,550 million and £400 million.

At July 1, 2017, our cross-currency swaps designated as net investment hedges consisted of:

| Instrument          | £   | Notional<br>(local)<br>(in billions) | \$ | Notional<br>(USD)<br>(in billions) | Maturity      |
|---------------------|-----|--------------------------------------|----|------------------------------------|---------------|
| Cross-currency swap | £   | 0.8                                  | \$ | 1.4                                | October 2019  |
| Cross-currency swap | C\$ | 1.8                                  | \$ | 1.6                                | December 2019 |

We also periodically enter into shorter-dated foreign exchange contracts that are designated as net investment hedges. At July 1, 2017, we had three Chinese renminbi foreign exchange contracts with an aggregate USD notional amount of \$204 million.

**Hedge Coverage:**

At July 1, 2017, we had entered into contracts designated as hedging instruments, which hedge transactions for the following durations:

- foreign exchange contracts for periods not exceeding the next 14 months; and
- cross-currency contracts for periods not exceeding the next three years.

At July 1, 2017, we had entered into contracts not designated as hedging instruments, which hedge economic risks for the following durations:

- commodity contracts for periods not exceeding the next 15 months; and
- foreign exchange contracts for periods not exceeding the next eight months.

**Hedge Ineffectiveness:**

We record pre-tax gains or losses reclassified from accumulated other comprehensive income/(losses) due to ineffectiveness for foreign exchange contracts related to forecasted transactions in other expense/(income), net.

**Deferred Hedging Gains and Losses:**

Based on our valuation at July 1, 2017 and assuming market rates remain constant through contract maturities, we expect transfers to net income/(loss) of unrealized gains for foreign currency cash flow hedges during the next 12 months to be insignificant. Additionally, we expect transfers to net income/(loss) of unrealized losses for interest rate cash flow hedges during the next 12 months to be insignificant.

**Derivative Impact on the Statements of Income and Statements of Comprehensive Income:**

The following tables present the pre-tax effect of derivative instruments on the consolidated statements of income and statements of comprehensive income:

|  | For the Three Months Ended |                                  |                                 |                            |                        |                                  |                                 |                            |
|--|----------------------------|----------------------------------|---------------------------------|----------------------------|------------------------|----------------------------------|---------------------------------|----------------------------|
|  | July 1,<br>2017            |                                  |                                 |                            | July 3,<br>2016        |                                  |                                 |                            |
|  | Commodity<br>Contracts     | Foreign<br>Exchange<br>Contracts | Cross-<br>Currency<br>Contracts | Interest Rate<br>Contracts | Commodity<br>Contracts | Foreign<br>Exchange<br>Contracts | Cross-<br>Currency<br>Contracts | Interest Rate<br>Contracts |
|  | (in millions)              |                                  |                                 |                            |                        |                                  |                                 |                            |
| <b>Derivatives designated as hedging instruments:</b>                                    |                            |                                  |                                 |                            |                        |                                  |                                 |                            |
| Cash flow hedges:  |                            |                                  |                                 |                            |                        |                                  |                                 |                            |
| Gains/(losses) recognized in other comprehensive income/(loss) (effective portion)       | \$ —                       | \$ (32)                          | \$ —                            | \$ —                       | \$ —                   | \$ (9)                           | \$ —                            | \$ (8)                     |
| Net investment hedges:   |                            |                                  |                                 |                            |                        |                                  |                                 |                            |
| Gains/(losses) recognized in other comprehensive income/(loss) (effective portion)       | —                          | (8)                              | (66)                            | —                          | —                      | 46                               | 90                              | —                          |
| Total gains/(losses) recognized in other comprehensive income/(loss) (effective portion) | \$ —                       | \$ (40)                          | \$ (66)                         | \$ —                       | \$ —                   | \$ 37                            | \$ 90                           | \$ (8)                     |
| Cash flow hedges reclassified to net income/(loss):                                      |                            |                                  |                                 |                            |                        |                                  |                                 |                            |
| Net sales  | \$ —                       | \$ —                             | \$ —                            | \$ —                       | \$ —                   | \$ 2                             | \$ —                            | \$ —                       |
| Cost of products sold (effective portion)  | —                          | 4                                | —                               | —                          | —                      | 4                                | —                               | —                          |
| Other expense/(income), net  | —                          | (31)                             | —                               | —                          | —                      | (11)                             | —                               | —                          |
| Interest expense   | —                          | —                                | —                               | (1)                        | —                      | —                                | —                               | (1)                        |
|  | —                          | (27)                             | —                               | (1)                        | —                      | (5)                              | —                               | (1)                        |
| <b>Derivatives not designated as hedging instruments:</b>                                |                            |                                  |                                 |                            |                        |                                  |                                 |                            |
| Gains/(losses) on derivatives recognized in cost of products sold                        | —                          | —                                | —                               | —                          | 29                     | —                                | —                               | —                          |
| Gains/(losses) on derivatives recognized in other expense/(income), net                  | —                          | 26                               | (1)                             | —                          | —                      | 18                               | (1)                             | —                          |
|  | —                          | 26                               | (1)                             | —                          | 29                     | 18                               | (1)                             | —                          |
| Total gains/(losses) recognized in statements of income                                  | \$ —                       | \$ (1)                           | \$ (1)                          | \$ (1)                     | \$ 29                  | \$ 13                            | \$ (1)                          | \$ (1)                     |

## For the Six Months Ended

|  | July 1,<br>2017        |                                  |                                 |                            | July 3,<br>2016        |                                  |                                 |                            |
|--|------------------------|----------------------------------|---------------------------------|----------------------------|------------------------|----------------------------------|---------------------------------|----------------------------|
|  | Commodity<br>Contracts | Foreign<br>Exchange<br>Contracts | Cross-<br>Currency<br>Contracts | Interest Rate<br>Contracts | Commodity<br>Contracts | Foreign<br>Exchange<br>Contracts | Cross-<br>Currency<br>Contracts | Interest Rate<br>Contracts |
| (in millions)  |                        |                                  |                                 |                            |                        |                                  |                                 |                            |
| <b>Derivatives designated as hedging instruments:</b>                                    |                        |                                  |                                 |                            |                        |                                  |                                 |                            |
| Cash flow hedges:  |                        |                                  |                                 |                            |                        |                                  |                                 |                            |
| Gains/(losses) recognized in other comprehensive income/(loss) (effective portion)       | \$ —                   | \$ (71)                          | \$ —                            | \$ —                       | \$ —                   | \$ (37)                          | \$ —                            | \$ (8)                     |
| Net investment hedges:   |                        |                                  |                                 |                            |                        |                                  |                                 |                            |
| Gains/(losses) recognized in other comprehensive income/(loss) (effective portion)       | —                      | (12)                             | (96)                            | —                          | —                      | 46                               | 25                              | —                          |
| Total gains/(losses) recognized in other comprehensive income/(loss) (effective portion) | \$ —                   | \$ (83)                          | \$ (96)                         | \$ —                       | \$ —                   | \$ 9                             | \$ 25                           | \$ (8)                     |
| Cash flow hedges reclassified to net income/(loss):                                      |                        |                                  |                                 |                            |                        |                                  |                                 |                            |
| Net sales  | \$ —                   | \$ —                             | \$ —                            | \$ —                       | \$ —                   | \$ 3                             | \$ —                            | \$ —                       |
| Cost of products sold (effective portion)  | —                      | 3                                | —                               | —                          | —                      | 33                               | —                               | —                          |
| Other expense/(income), net  | —                      | (46)                             | —                               | —                          | —                      | (14)                             | —                               | —                          |
| Interest expense   | —                      | —                                | —                               | (2)                        | —                      | —                                | —                               | (2)                        |
|  | —                      | (43)                             | —                               | (2)                        | —                      | 22                               | —                               | (2)                        |
| <b>Derivatives not designated as hedging instruments:</b>                                |                        |                                  |                                 |                            |                        |                                  |                                 |                            |
| Gains/(losses) on derivatives recognized in cost of products sold                        | (37)                   | —                                | —                               | —                          | 11                     | —                                | —                               | —                          |
| Gains/(losses) on derivatives recognized in other expense/(income), net                  | —                      | 28                               | (2)                             | —                          | —                      | (57)                             | (8)                             | —                          |
|  | (37)                   | 28                               | (2)                             | —                          | 11                     | (57)                             | (8)                             | —                          |
| Total gains/(losses) recognized in statements of income                                  | \$ (37)                | \$ (15)                          | \$ (2)                          | \$ (2)                     | \$ 11                  | \$ (35)                          | \$ (8)                          | \$ (2)                     |

Related to our non-derivative, foreign denominated debt instruments designated as net investment hedges, we recognized pre-tax losses in other comprehensive income/(loss) of \$216 million for the three months and \$260 million for the six months ended July 1, 2017, and we recognized pre-tax gains in other comprehensive income/(loss) of \$58 million for the three months and \$39 million for the six months ended July 3, 2016.

## **Note 11. Financing Arrangements**

We utilize accounts receivable securitization and factoring programs (the “Programs”) globally for our working capital needs and to provide efficient liquidity. We operate these Programs such that we generally utilize the majority of the available aggregate cash consideration limits. We account for transfers of receivables pursuant to the Programs as a sale and remove them from our condensed consolidated balance sheets. Under the Programs, we generally receive cash consideration up to a certain limit and record a non-cash exchange for sold receivables for the remainder of the purchase price. We maintain a “beneficial interest,” or a right to collect cash, in the sold receivables. Cash receipts from the payments on sold receivables (which are cash receipts on the underlying trade receivables that have already been securitized in these Programs) is classified as investing activities and presented as cash receipts on sold receivables on our condensed consolidated statements of cash flows. These cash receipts represent the consideration received for beneficial interest obtained for transferring trade receivables in securitization transactions.

The carrying value of trade receivables removed from our condensed consolidated balance sheets in connection with the Programs was \$1.1 billion at July 1, 2017 and \$1.0 billion at December 31, 2016. The carrying value of the sold receivables, which approximated the fair value, was \$521 million at July 1, 2017 and \$129 million at December 31, 2016.

See Note 14, *Financing Arrangements*, to our consolidated financial statements for the year ended December 31, 2016 in our Annual Report on Form 10-K for additional information on the Programs.

## **Note 12. Venezuela - Foreign Currency and Inflation**

We apply highly inflationary accounting to the results of our Venezuelan subsidiary and include these results in our consolidated financial statements. Our results of operations in Venezuela reflect a controlled subsidiary. We continue to have sufficient currency liquidity and pricing flexibility to run our operations. However, the continuing economic uncertainty, strict labor laws, and evolving government controls over imports, prices, currency exchange, and payments present a challenging operating environment. Increased restrictions imposed by the Venezuelan government or further deterioration of the economic environment could impact our ability to control our Venezuelan operations and could lead us to deconsolidate our Venezuelan subsidiary in the future.

At July 1, 2017, there were two exchange rates legally available to us for converting Venezuelan bolivars to U.S. dollars, including:

- the official exchange rate of BsF10 per U.S. dollar available through the Sistema de Divisa Protegida (“DIPRO”), which is available for purchases and sales of essential items, including food products; and
- an alternative exchange rate available through the Sistema de Divisa Complementaria (“DICOM”), which is available for all transactions not covered by DIPRO.

We have had no settlements at the DIPRO rate of BsF10 per U.S. dollar in 2017. At July 1, 2017, we had outstanding requests of \$26 million for payment of invoices for the purchase of ingredients and packaging materials for the years 2012 through 2015, all of which were requested for payment at BsF6.30 per U.S. dollar (the official exchange rate until March 10, 2016). We have had access to U.S. dollars at DICOM rates in 2017. As of July 1, 2017, we believe the DICOM rate is the most appropriate legally available rate at which to translate the results of our Venezuelan subsidiary.

In the second quarter of 2017, the Venezuelan government implemented changes to move DICOM from a free-floating exchange format to an auction-based system. The first auction in May 2017 resulted in a new published exchange rate of BsF2,010 per U.S. dollar. Since then, the DICOM rate has increasingly deteriorated and was BsF2,640 at July 1, 2017. Published DICOM rates averaged BsF1,303 per U.S. dollar for the three months and BsF1,013 per U.S. dollar for the six months ended July 1, 2017.

During the six months ended July 1, 2017, we remeasured the monetary assets and liabilities, as well as the operating results, of our Venezuelan subsidiary at DICOM rates. This remeasurement resulted in a nonmonetary currency devaluation loss of \$25 million for the three months and \$33 million for the six months ended July 1, 2017, which were recorded in other expense/(income), net, in the condensed consolidated statements of income for the periods then ended.

In the second quarter of 2016, we assessed the nonmonetary assets of our Venezuelan subsidiary for impairment, resulting in a \$53 million loss to write down property, plant and equipment, net, and prepaid spare parts, which was recorded within cost of products sold in the condensed consolidated statements of income for the periods then ended. We continue to monitor the DICOM rate, and the nonmonetary assets supported by the underlying operations in Venezuela, for impairment.

## **Note 13. Commitments, Contingencies and Debt**

### **Legal Proceedings**

We are routinely involved in legal proceedings, claims, and governmental inquiries, inspections or investigations (“Legal Matters”) arising in the ordinary course of our business.

On April 1, 2015, the Commodity Futures Trading Commission (“CFTC”) filed a formal complaint against Mondelez International (formerly known as Kraft Foods Inc.) and Kraft in the U.S. District Court for the Northern District of Illinois, Eastern Division, related to activities involving the trading of December 2011 wheat futures contracts. The complaint alleges that Mondelez International and Kraft (1) manipulated or attempted to manipulate the wheat markets during the fall of 2011, (2) violated position limit levels for wheat futures, and (3) engaged in non-competitive trades by trading both sides of exchange-for-physical Chicago Board of Trade wheat contracts. As previously disclosed by Kraft, these activities arose prior to the October 1, 2012 spin-off of Kraft by Mondelez International to its shareholders and involve the business now owned and operated by Mondelez International or its affiliates. The Separation and Distribution Agreement between Kraft and Mondelez International, dated as of September 27, 2012, governs the allocation of liabilities between Mondelez International and Kraft and, accordingly, Mondelez International will predominantly bear the costs of this matter and any monetary penalties or other payments that the CFTC may impose. We do not expect this matter to have a material adverse effect on our financial condition, results of operations, or business.

While we cannot predict with certainty the results of Legal Matters in which we are currently involved or may in the future be involved, we do not expect that the ultimate costs to resolve any of the Legal Matters that are currently pending will have a material adverse effect on our financial condition or results of operations.

### **Debt**

#### ***Borrowing Arrangements:***

We had commercial paper outstanding of \$1.1 billion at July 1, 2017 and \$642 million at December 31, 2016.

See Note 11, *Debt*, to our consolidated financial statements for the year ended December 31, 2016 in our Annual Report on Form 10-K for additional information on our borrowing arrangements.

#### ***Long-Term Debt:***

We repaid \$2.0 billion aggregate principal amount of senior notes that matured in the second quarter of 2017. We funded these long-term debt repayments primarily with cash on hand and our commercial paper programs.

In the second quarter of 2016, we issued new long-term debt and used the proceeds to redeem all outstanding shares of our 9.00% cumulative compounding preferred stock, Series A (“Series A Preferred Stock”) on June 7, 2016. We incurred costs related to the issuance of our long-term debt of \$52 million, which is reflected as a direct deduction of our long-term debt balance on the consolidated balance sheet at December 31, 2016.

#### ***Fair Value of Debt:***

At July 1, 2017, the aggregate fair value of our total debt was \$32.3 billion as compared with a carrying value of \$31.1 billion. At December 31, 2016, the aggregate fair value of our total debt was \$33.2 billion as compared with a carrying value of \$32.4 billion. Our short-term debt and commercial paper had carrying values that approximated their fair values at July 1, 2017 and December 31, 2016. We determined the fair value of our long-term debt using Level 2 inputs. Fair values are generally estimated based on quoted market prices for identical or similar instruments.

#### ***Series A Preferred Stock:***

As noted above, in the second quarter of 2016, we redeemed all outstanding shares of our Series A Preferred Stock. We funded this redemption primarily through the issuance of long-term debt, as well as other sources of liquidity, including our commercial paper program, U.S. securitization program, and cash on hand. In connection with the redemption, all Series A Preferred Stock was canceled and automatically retired, and we no longer pay any associated dividends.

#### **Note 14. Earnings Per Share**

Our earnings per common share (“EPS”) were:

|  | For the Three Months Ended              |                 | For the Six Months Ended |                 |
|--|---|-----------------|--------------------------|-----------------|
|  | July 1,<br>2017                         | July 3,<br>2016 | July 1,<br>2017          | July 3,<br>2016 |
|  | (in millions, except per share amounts) |                 |                          |                 |
| <b>Basic Earnings Per Common Share:</b>  |   |                 |                          |                 |
| Net income/(loss) attributable to common shareholders                          | \$ 1,159                                | \$ 770          | \$ 2,052                 | \$ 1,666        |
| Weighted average shares of common stock outstanding                            | 1,218                                   | 1,217           | 1,218                    | 1,216           |
| Net earnings/(loss)  | \$ 0.95                                 | \$ 0.63         | \$ 1.69                  | \$ 1.37         |
| <b>Diluted Earnings Per Common Share:</b>                                      |   |                 |                          |                 |
| Net income/(loss) attributable to common shareholders                          | \$ 1,159                                | \$ 770          | \$ 2,052                 | \$ 1,666        |
| Weighted average shares of common stock outstanding                            | 1,218                                   | 1,217           | 1,218                    | 1,216           |
| Effect of dilutive equity awards   | 11                                      | 10              | 11                       | 10              |
| Weighted average shares of common stock outstanding, including dilutive effect | 1,229                                   | 1,227           | 1,229                    | 1,226           |
| Net earnings/(loss)  | \$ 0.94                                 | \$ 0.63         | \$ 1.67                  | \$ 1.36         |

We use the treasury stock method to calculate the dilutive effect of outstanding equity awards in the denominator for diluted EPS. Anti-dilutive shares were 1 million for the three months and 1 million for six months ended July 1, 2017 and were 3 million for the three months and 2 million for the six months ended July 3, 2016.

#### **Note 15. Segment Reporting**

We manufacture and market food and beverage products, including condiments and sauces, cheese and dairy, meals, meats, refreshment beverages, coffee, and other grocery products, throughout the world.

We manage and report our operating results through four segments. We have three reportable segments defined by geographic region: United States, Canada, and Europe. Our remaining businesses are combined and disclosed as “Rest of World”. Rest of World is comprised of two operating segments: Latin America; and Asia Pacific, Middle East, and Africa (“AMEA”).

In the fourth quarter of 2016, we reorganized our segments to reflect the following:

- our Russia business moved from Rest of World to the Europe segment; and
- management of our Global Procurement Office moved from one of our European subsidiaries to our global headquarters, which resulted in moving the related costs from the Europe segment to general corporate expenses.

These changes are reflected in all historical periods presented and did not have a material impact on our condensed consolidated financial statements. See Note 18, *Segment Reporting*, to our consolidated financial statements for the year ended December 31, 2016 in our Annual Report on Form 10-K for additional information related to these changes.

Management evaluates segment performance based on several factors, including net sales and segment adjusted earnings before interest, tax, depreciation, and amortization (“Segment Adjusted EBITDA”). Management uses Segment Adjusted EBITDA to evaluate segment performance and allocate resources. Segment Adjusted EBITDA is a tool that can assist management and investors in comparing our performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our underlying operations. These items include depreciation and amortization (including amortization of postretirement benefit plans prior service credits), equity award compensation expense, integration and restructuring expenses, merger costs, unrealized gains/(losses) on commodity hedges (the unrealized gains and losses are recorded in general corporate expenses until realized; once realized, the gains and losses are recorded in the applicable segment’s operating results), impairment losses, gains/(losses) on the sale of a business, and nonmonetary currency devaluation (e.g., remeasurement gains and losses).

Management does not use assets by segment to evaluate performance or allocate resources. Therefore, we do not disclose assets by segment.

Net sales by segment were (in millions):

|                 | For the Three Months Ended |              | For the Six Months Ended |              |
|-----------------|----------------------------|--------------|--------------------------|--------------|
|                 | July 1, 2017               | July 3, 2016 | July 1, 2017             | July 3, 2016 |
| Net sales:      |                            |              |                          |              |
| United States   | \$ 4,634                   | \$ 4,692     | \$ 9,186                 | \$ 9,407     |
| Canada          | 597                        | 638          | 1,040                    | 1,142        |
| Europe          | 595                        | 625          | 1,138                    | 1,208        |
| Rest of World   | 851                        | 838          | 1,677                    | 1,606        |
| Total net sales | \$ 6,677                   | \$ 6,793     | \$ 13,041                | \$ 13,363    |

Segment Adjusted EBITDA was (in millions):

|  | For the Three Months Ended |              | For the Six Months Ended |              |
|--|----------------------------|--------------|--------------------------|--------------|
|  | July 1, 2017               | July 3, 2016 | July 1, 2017             | July 3, 2016 |
| Segment Adjusted EBITDA:   |                            |              |                          |              |
| United States  | \$ 1,566                   | \$ 1,518     | \$ 3,038                 | \$ 3,011     |
| Canada   | 189                        | 192          | 315                      | 343          |
| Europe   | 202                        | 221          | 372                      | 401          |
| Rest of World  | 180                        | 202          | 326                      | 368          |
| General corporate expenses   | (36)                       | (46)         | (65)                     | (85)         |
| Depreciation and amortization (excluding integration and restructuring expenses)     | (137)                      | (124)        | (269)                    | (285)        |
| Integration and restructuring expenses   | 6                          | (284)        | (142)                    | (544)        |
| Merger costs   | —                          | (14)         | —                        | (29)         |
| Unrealized gains/(losses) on commodity hedges  | 13                         | 37           | (29)                     | 45           |
| Impairment losses  | (48)                       | (53)         | (48)                     | (53)         |
| Nonmonetary currency devaluation   | —                          | (2)          | —                        | (3)          |
| Equity award compensation expense (excluding integration and restructuring expenses) | (14)                       | (11)         | (26)                     | (20)         |
| Operating income   | 1,921                      | 1,636        | 3,472                    | 3,149        |
| Interest expense   | 307                        | 264          | 620                      | 513          |
| Other expense/(income), net  | 24                         | 6            | 12                       | (2)          |
| Income/(loss) before income taxes  | \$ 1,590                   | \$ 1,366     | \$ 2,840                 | \$ 2,638     |

In the first quarter of 2017, we reorganized the products within our product categories to reflect how we manage our business. We have reflected this change for all historical periods presented. Our net sales by product category were (in millions):

|                               | For the Three Months Ended |              | For the Six Months Ended |              |
|-------------------------------|----------------------------|--------------|--------------------------|--------------|
|                               | July 1, 2017               | July 3, 2016 | July 1, 2017             | July 3, 2016 |
| Condiments and sauces         | \$ 1,710                   | \$ 1,760     | \$ 3,223                 | \$ 3,324     |
| Cheese and dairy              | 1,319                      | 1,350        | 2,618                    | 2,716        |
| Ambient meals                 | 541                        | 559          | 1,124                    | 1,149        |
| Frozen and chilled meals      | 639                        | 626          | 1,292                    | 1,253        |
| Meats and seafood             | 695                        | 727          | 1,355                    | 1,423        |
| Refreshment beverages         | 437                        | 442          | 809                      | 850          |
| Coffee                        | 340                        | 356          | 690                      | 739          |
| Infant and nutrition          | 211                        | 216          | 399                      | 406          |
| Desserts, toppings and baking | 233                        | 235          | 429                      | 445          |
| Nuts and salted snacks        | 252                        | 255          | 484                      | 515          |
| Other                         | 300                        | 267          | 618                      | 543          |
| Total net sales               | \$ 6,677                   | \$ 6,793     | \$ 13,041                | \$ 13,363    |

**Note 16. Supplemental Financial Information**

We fully and unconditionally guarantee the notes issued by our wholly owned operating subsidiary, Kraft Heinz Foods Company. See Note 11, *Debt*, to our consolidated financial statements for the year ended December 31, 2016 in our Annual Report on Form 10-K for additional descriptions of these guarantees. None of our other subsidiaries guarantee these notes.

Set forth below are the condensed consolidating financial statements presenting the results of operations, financial position and cash flows of Kraft Heinz (as parent guarantor), Kraft Heinz Foods Company (as subsidiary issuer of the notes), and the non-guarantor subsidiaries on a combined basis and eliminations necessary to arrive at the total reported information on a consolidated basis. This condensed consolidating financial information has been prepared and presented pursuant to the SEC Regulation S-X Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or being Registered." This information is not intended to present the financial position, results of operations, and cash flows of the individual companies or groups of companies in accordance with U.S. GAAP. Eliminations represent adjustments to eliminate investments in subsidiaries and intercompany balances and transactions between or among the parent guarantor, subsidiary issuer, and the non-guarantor subsidiaries.

The Kraft Heinz Company  
Condensed Consolidating Statements of Income  
For the Three Months Ended July 1, 2017  
(in millions)  
(Unaudited)

|   | Parent Guarantor | Subsidiary Issuer | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|------------------|-------------------|-------------------------------|--------------|--------------|
| Net sales   | \$ —             | \$ 4,411          | \$ 2,404                      | \$ (138)     | \$ 6,677     |
| Cost of products sold   | —                | 2,510             | 1,624                         | (138)        | 3,996        |
| Gross profit  | —                | 1,901             | 780                           | —            | 2,681        |
| Selling, general and administrative expenses                  | —                | 165               | 595                           | —            | 760          |
| Intercompany service fees and other recharges                 | —                | 1,321             | (1,321)                       | —            | —            |
| Operating income  | —                | 415               | 1,506                         | —            | 1,921        |
| Interest expense  | —                | 296               | 11                            | —            | 307          |
| Other expense/(income), net                                   | —                | (48)              | 72                            | —            | 24           |
| Income/(loss) before income taxes                             | —                | 167               | 1,423                         | —            | 1,590        |
| Provision for/(benefit from) income taxes                     | —                | (69)              | 499                           | —            | 430          |
| Equity in earnings of subsidiaries                            | 1,159            | 923               | —                             | (2,082)      | —            |
| Net income/(loss)   | 1,159            | 1,159             | 924                           | (2,082)      | 1,160        |
| Net income/(loss) attributable to noncontrolling interest     | —                | —                 | 1                             | —            | 1            |
| Net income/(loss) excluding noncontrolling interest           | \$ 1,159         | \$ 1,159          | \$ 923                        | \$ (2,082)   | \$ 1,159     |
| Comprehensive income/(loss) excluding noncontrolling interest | \$ 1,300         | \$ 1,300          | \$ 1,344                      | \$ (2,644)   | \$ 1,300     |

The Kraft Heinz Company  
Condensed Consolidating Statements of Income  
For the Three Months Ended July 3, 2016  
(in millions)  
(Unaudited)

|   | Parent Guarantor | Subsidiary Issuer | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|------------------|-------------------|-------------------------------|--------------|--------------|
| Net sales   | \$ —             | \$ 4,479          | \$ 2,474                      | \$ (160)     | \$ 6,793     |
| Cost of products sold   | —                | 2,741             | 1,681                         | (160)        | 4,262        |
| Gross profit  | —                | 1,738             | 793                           | —            | 2,531        |
| Selling, general and administrative expenses                  | —                | 307               | 588                           | —            | 895          |
| Intercompany service fees and other recharges                 | —                | 1,311             | (1,311)                       | —            | —            |
| Operating income  | —                | 120               | 1,516                         | —            | 1,636        |
| Interest expense  | —                | 253               | 11                            | —            | 264          |
| Other expense/(income), net                                   | —                | 55                | (49)                          | —            | 6            |
| Income/(loss) before income taxes                             | —                | (188)             | 1,554                         | —            | 1,366        |
| Provision for/(benefit from) income taxes                     | —                | (92)              | 503                           | —            | 411          |
| Equity in earnings of subsidiaries                            | 950              | 1,046             | —                             | (1,996)      | —            |
| Net income/(loss)   | 950              | 950               | 1,051                         | (1,996)      | 955          |
| Net income/(loss) attributable to noncontrolling interest     | —                | —                 | 5                             | —            | 5            |
| Net income/(loss) excluding noncontrolling interest           | \$ 950           | \$ 950            | \$ 1,046                      | \$ (1,996)   | \$ 950       |
| Comprehensive income/(loss) excluding noncontrolling interest | \$ 577           | \$ 577            | \$ 579                        | \$ (1,156)   | \$ 577       |

The Kraft Heinz Company  
Condensed Consolidating Statements of Income  
For the Six Months Ended July 1, 2017  
(in millions)  
(Unaudited)

|   | Parent Guarantor | Subsidiary Issuer | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|------------------|-------------------|-------------------------------|--------------|--------------|
| Net sales   | \$ —             | \$ 8,771          | \$ 4,570                      | \$ (300)     | \$ 13,041    |
| Cost of products sold   | —                | 5,224             | 3,135                         | (300)        | 8,059        |
| Gross profit  | —                | 3,547             | 1,435                         | —            | 4,982        |
| Selling, general and administrative expenses                  | —                | 349               | 1,161                         | —            | 1,510        |
| Intercompany service fees and other recharges                 | —                | 2,429             | (2,429)                       | —            | —            |
| Operating income  | —                | 769               | 2,703                         | —            | 3,472        |
| Interest expense  | —                | 599               | 21                            | —            | 620          |
| Other expense/(income), net                                   | —                | (31)              | 43                            | —            | 12           |
| Income/(loss) before income taxes                             | —                | 201               | 2,639                         | —            | 2,840        |
| Provision for/(benefit from) income taxes                     | —                | (81)              | 870                           | —            | 789          |
| Equity in earnings of subsidiaries                            | 2,052            | 1,770             | —                             | (3,822)      | —            |
| Net income/(loss)   | 2,052            | 2,052             | 1,769                         | (3,822)      | 2,051        |
| Net income/(loss) attributable to noncontrolling interest     | —                | —                 | (1)                           | —            | (1)          |
| Net income/(loss) excluding noncontrolling interest           | \$ 2,052         | \$ 2,052          | \$ 1,770                      | \$ (3,822)   | \$ 2,052     |
| Comprehensive income/(loss) excluding noncontrolling interest | \$ 2,372         | \$ 2,372          | \$ 3,186                      | \$ (5,558)   | \$ 2,372     |

The Kraft Heinz Company  
Condensed Consolidating Statements of Income  
For the Six Months Ended July 3, 2016  
(in millions)  
(Unaudited)

|   | Parent Guarantor | Subsidiary Issuer | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|------------------|-------------------|-------------------------------|--------------|--------------|
| Net sales   | \$ —             | \$ 8,950          | \$ 4,715                      | \$ (302)     | \$ 13,363    |
| Cost of products sold   | —                | 5,573             | 3,183                         | (302)        | 8,454        |
| Gross profit  | —                | 3,377             | 1,532                         | —            | 4,909        |
| Selling, general and administrative expenses                  | —                | 584               | 1,176                         | —            | 1,760        |
| Intercompany service fees and other recharges                 | —                | 2,525             | (2,525)                       | —            | —            |
| Operating income  | —                | 268               | 2,881                         | —            | 3,149        |
| Interest expense  | —                | 488               | 25                            | —            | 513          |
| Other expense/(income), net                                   | —                | 86                | (88)                          | —            | (2)          |
| Income/(loss) before income taxes                             | —                | (306)             | 2,944                         | —            | 2,638        |
| Provision for/(benefit from) income taxes                     | —                | (150)             | 933                           | —            | 783          |
| Equity in earnings of subsidiaries                            | 1,846            | 2,002             | —                             | (3,848)      | —            |
| Net income/(loss)   | 1,846            | 1,846             | 2,011                         | (3,848)      | 1,855        |
| Net income/(loss) attributable to noncontrolling interest     | —                | —                 | 9                             | —            | 9            |
| Net income/(loss) excluding noncontrolling interest           | \$ 1,846         | \$ 1,846          | \$ 2,002                      | \$ (3,848)   | \$ 1,846     |
| Comprehensive income/(loss) excluding noncontrolling interest | \$ 1,584         | \$ 1,584          | \$ 1,728                      | \$ (3,312)   | \$ 1,584     |

The Kraft Heinz Company  
Condensed Consolidating Balance Sheets  
As of July 1, 2017  
(in millions)  
(Unaudited)

|  | Parent Guarantor | Subsidiary Issuer | Non-Guarantor<br>Subsidiaries | Eliminations        | Consolidated      |
|--|------------------|-------------------|-------------------------------|---------------------|-------------------|
| <b>ASSETS</b>                              |                  |                   |                               |                     |                   |
| Cash and cash equivalents                  | \$ —             | \$ 556            | \$ 889                        | \$ —                | \$ 1,445          |
| Trade receivables                          | —                | 20                | 893                           | —                   | 913               |
| Receivables due from affiliates            | —                | 775               | 210                           | (985)               | —                 |
| Dividends due from affiliates              | 65               | —                 | —                             | (65)                | —                 |
| Sold receivables                           | —                | —                 | 521                           | —                   | 521               |
| Inventories                                | —                | 2,001             | 1,064                         | —                   | 3,065             |
| Short-term lending due from affiliates     | —                | 1,874             | 3,443                         | (5,317)             | —                 |
| Other current assets                       | —                | 3,161             | 225                           | (2,222)             | 1,164             |
| Total current assets                       | 65               | 8,387             | 7,245                         | (8,589)             | 7,108             |
| Property, plant and equipment, net         | —                | 4,473             | 2,335                         | —                   | 6,808             |
| Goodwill                                   | —                | 11,067            | 33,498                        | —                   | 44,565            |
| Investments in subsidiaries                | 58,333           | 71,228            | —                             | (129,561)           | —                 |
| Intangible assets, net                     | —                | 3,294             | 56,106                        | —                   | 59,400            |
| Long-term lending due from affiliates      | —                | 1,700             | 2,000                         | (3,700)             | —                 |
| Other assets                               | —                | 527               | 1,008                         | —                   | 1,535             |
| <b>TOTAL ASSETS</b>                        | <b>\$ 58,398</b> | <b>\$ 100,676</b> | <b>\$ 102,192</b>             | <b>\$ (141,850)</b> | <b>\$ 119,416</b> |
| <b>LIABILITIES AND EQUITY</b>              |                  |                   |                               |                     |                   |
| Commercial paper and other short-term debt | \$ —             | \$ 1,086          | \$ 4                          | \$ —                | \$ 1,090          |
| Current portion of long-term debt          | —                | 9                 | 10                            | —                   | 19                |
| Short-term lending due to affiliates       | —                | 3,443             | 1,874                         | (5,317)             | —                 |
| Trade payables                             | —                | 2,193             | 1,695                         | —                   | 3,888             |
| Payables due to affiliates                 | —                | 210               | 775                           | (985)               | —                 |
| Accrued marketing                          | —                | 128               | 366                           | —                   | 494               |
| Accrued postemployment costs               | —                | 84                | 73                            | —                   | 157               |
| Income taxes payable                       | —                | —                 | 2,375                         | (2,222)             | 153               |
| Interest payable                           | —                | 397               | 9                             | —                   | 406               |
| Dividends due to affiliates                | —                | 65                | —                             | (65)                | —                 |
| Other current liabilities                  | 65               | 477               | 607                           | —                   | 1,149             |
| Total current liabilities                  | 65               | 8,092             | 7,788                         | (8,589)             | 7,356             |
| Long-term debt                             | —                | 28,960            | 1,019                         | —                   | 29,979            |
| Long-term borrowings due to affiliates     | —                | 2,000             | 1,917                         | (3,917)             | —                 |
| Deferred income taxes                      | —                | 1,327             | 19,560                        | —                   | 20,887            |
| Accrued postemployment costs               | —                | 1,687             | 288                           | —                   | 1,975             |
| Other liabilities                          | —                | 277               | 396                           | —                   | 673               |
| <b>TOTAL LIABILITIES</b>                   | <b>65</b>        | <b>42,343</b>     | <b>30,968</b>                 | <b>(12,506)</b>     | <b>60,870</b>     |
| Total shareholders' equity                 | 58,333           | 58,333            | 71,011                        | (129,344)           | 58,333            |
| Noncontrolling interest                    | —                | —                 | 213                           | —                   | 213               |
| <b>TOTAL EQUITY</b>                        | <b>58,333</b>    | <b>58,333</b>     | <b>71,224</b>                 | <b>(129,344)</b>    | <b>58,546</b>     |
| <b>TOTAL LIABILITIES AND EQUITY</b>        | <b>\$ 58,398</b> | <b>\$ 100,676</b> | <b>\$ 102,192</b>             | <b>\$ (141,850)</b> | <b>\$ 119,416</b> |

The Kraft Heinz Company  
Condensed Consolidating Balance Sheets  
As of December 31, 2016  
(in millions)  
(Unaudited)

|  | Parent Guarantor | Subsidiary Issuer | Non-Guarantor<br>Subsidiaries | Eliminations        | Consolidated      |
|--|------------------|-------------------|-------------------------------|---------------------|-------------------|
| <b>ASSETS</b>                              |                  |                   |                               |                     |                   |
| Cash and cash equivalents                  | \$ —             | \$ 2,830          | \$ 1,374                      | \$ —                | \$ 4,204          |
| Trade receivables                          | —                | 12                | 757                           | —                   | 769               |
| Receivables due from affiliates            | —                | 712               | 111                           | (823)               | —                 |
| Dividends due from affiliates              | 39               | —                 | —                             | (39)                | —                 |
| Sold receivables                           | —                | —                 | 129                           | —                   | 129               |
| Inventories                                | —                | 1,759             | 925                           | —                   | 2,684             |
| Short-term lending due from affiliates     | —                | 1,722             | 2,956                         | (4,678)             | —                 |
| Other current assets                       | —                | 2,229             | 447                           | (1,709)             | 967               |
| Total current assets                       | 39               | 9,264             | 6,699                         | (7,249)             | 8,753             |
| Property, plant and equipment, net         | —                | 4,447             | 2,241                         | —                   | 6,688             |
| Goodwill                                   | —                | 11,067            | 33,058                        | —                   | 44,125            |
| Investments in subsidiaries                | 57,358           | 70,877            | —                             | (128,235)           | —                 |
| Intangible assets, net                     | —                | 3,364             | 55,933                        | —                   | 59,297            |
| Long-term lending due from affiliates      | —                | 1,700             | 2,000                         | (3,700)             | —                 |
| Other assets                               | —                | 501               | 1,116                         | —                   | 1,617             |
| <b>TOTAL ASSETS</b>                        | <b>\$ 57,397</b> | <b>\$ 101,220</b> | <b>\$ 101,047</b>             | <b>\$ (139,184)</b> | <b>\$ 120,480</b> |
| <b>LIABILITIES AND EQUITY</b>              |                  |                   |                               |                     |                   |
| Commercial paper and other short-term debt | \$ —             | \$ 642            | \$ 3                          | \$ —                | \$ 645            |
| Current portion of long-term debt          | —                | 2,032             | 14                            | —                   | 2,046             |
| Short-term lending due to affiliates       | —                | 2,956             | 1,722                         | (4,678)             | —                 |
| Trade payables                             | —                | 2,376             | 1,620                         | —                   | 3,996             |
| Payables due to affiliates                 | —                | 111               | 712                           | (823)               | —                 |
| Accrued marketing                          | —                | 277               | 472                           | —                   | 749               |
| Accrued postemployment costs               | —                | 144               | 13                            | —                   | 157               |
| Income taxes payable                       | —                | —                 | 1,964                         | (1,709)             | 255               |
| Interest payable                           | —                | 401               | 14                            | —                   | 415               |
| Dividends due to affiliates                | —                | 39                | —                             | (39)                | —                 |
| Other current liabilities                  | 39               | 588               | 611                           | —                   | 1,238             |
| Total current liabilities                  | 39               | 9,566             | 7,145                         | (7,249)             | 9,501             |
| Long-term debt                             | —                | 28,736            | 977                           | —                   | 29,713            |
| Long-term borrowings due to affiliates     | —                | 2,000             | 1,902                         | (3,902)             | —                 |
| Deferred income taxes                      | —                | 1,382             | 19,466                        | —                   | 20,848            |
| Accrued postemployment costs               | —                | 1,754             | 284                           | —                   | 2,038             |
| Other liabilities                          | —                | 424               | 382                           | —                   | 806               |
| <b>TOTAL LIABILITIES</b>                   | <b>39</b>        | <b>43,862</b>     | <b>30,156</b>                 | <b>(11,151)</b>     | <b>62,906</b>     |
| Total shareholders' equity                 | 57,358           | 57,358            | 70,675                        | (128,033)           | 57,358            |
| Noncontrolling interest                    | —                | —                 | 216                           | —                   | 216               |
| <b>TOTAL EQUITY</b>                        | <b>57,358</b>    | <b>57,358</b>     | <b>70,891</b>                 | <b>(128,033)</b>    | <b>57,574</b>     |
| <b>TOTAL LIABILITIES AND EQUITY</b>        | <b>\$ 57,397</b> | <b>\$ 101,220</b> | <b>\$ 101,047</b>             | <b>\$ (139,184)</b> | <b>\$ 120,480</b> |

The Kraft Heinz Company  
Condensed Consolidating Statements of Cash Flows  
For the Six Months Ended July 1, 2017  
(in millions)  
(Unaudited)  
(As Restated)

|  | Parent Guarantor | Subsidiary Issuer | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------------|-------------------|-------------------------------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |                  |                   |                               |              |              |
| Net cash provided by/(used for) operating activities                           | \$ 1,434         | \$ 812            | \$ (990)                      | \$ (1,434)   | \$ (178)     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                    |                  |                   |                               |              |              |
| Cash receipts on sold receivables  | —                | —                 | 1,069                         | —            | 1,069        |
| Capital expenditures   | —                | (470)             | (220)                         | —            | (690)        |
| Net proceeds from/(payments on) intercompany lending activities                | —                | 141               | (237)                         | 96           | —            |
| Additional investments in subsidiaries   | (12)             | —                 | —                             | 12           | —            |
| Other investing activities, net  | —                | 41                | 3                             | —            | 44           |
| Net cash provided by/(used for) investing activities                           | (12)             | (288)             | 615                           | 108          | 423          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                    |                  |                   |                               |              |              |
| Repayments of long-term debt   | —                | (2,023)           | (9)                           | —            | (2,032)      |
| Proceeds from issuance of commercial paper                                     | —                | 4,213             | —                             | —            | 4,213        |
| Repayments of commercial paper   | —                | (3,777)           | —                             | —            | (3,777)      |
| Net proceeds from/(payments on) intercompany borrowing activities              | —                | 237               | (141)                         | (96)         | —            |
| Dividends paid-common stock  | (1,434)          | (1,434)           | —                             | 1,434        | (1,434)      |
| Other intercompany capital stock transactions                                  | —                | 12                | —                             | (12)         | —            |
| Other financing activities, net  | 12               | —                 | 7                             | —            | 19           |
| Net cash provided by/(used for) financing activities                           | (1,422)          | (2,772)           | (143)                         | 1,326        | (3,011)      |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | —                | —                 | 29                            | —            | 29           |
| Cash, cash equivalents, and restricted cash:                                   |                  |                   |                               |              |              |
| Net increase/(decrease)  | —                | (2,248)           | (489)                         | —            | (2,737)      |
| Balance at beginning of period   | —                | 2,869             | 1,386                         | —            | 4,255        |
| Balance at end of period   | \$ —             | \$ 621            | \$ 897                        | \$ —         | \$ 1,518     |

The Kraft Heinz Company  
Condensed Consolidating Statements of Cash Flows  
For the Six Months Ended July 3, 2016  
(in millions)  
(Unaudited)  
(As Restated)

|  | Parent Guarantor | Subsidiary Issuer | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------------|-------------------|-------------------------------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |                  |                   |                               |              |              |
| Net cash provided by/(used for) operating activities                           | \$ 847           | \$ 1,520          | \$ (621)                      | \$ (847)     | \$ 899       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                    |                  |                   |                               |              |              |
| Cash receipts on sold receivables  | —                | —                 | 1,205                         | —            | 1,205        |
| Capital expenditures   | —                | (346)             | (168)                         | —            | (514)        |
| Net proceeds from/(payments on) intercompany lending activities                | —                | 595               | 107                           | (702)        | —            |
| Additional investments in subsidiaries   | —                | (10)              | —                             | 10           | —            |
| Return of capital  | 8,987            | —                 | —                             | (8,987)      | —            |
| Other investing activities, net  | —                | 86                | (24)                          | —            | 62           |
| Net cash provided by/(used for) investing activities                           | 8,987            | 325               | 1,120                         | (9,679)      | 753          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                    |                  |                   |                               |              |              |
| Repayments of long-term debt   | —                | (8)               | (4)                           | —            | (12)         |
| Proceeds from issuance of long-term debt                                       | —                | 6,980             | 2                             | —            | 6,982        |
| Proceeds from issuance of commercial paper                                     | —                | 1,939             | —                             | —            | 1,939        |
| Repayments of commercial paper   | —                | (1,307)           | —                             | —            | (1,307)      |
| Net proceeds from/(payments on) intercompany borrowing activities              | —                | (107)             | (595)                         | 702          | —            |
| Dividends paid-Series A Preferred Stock  | (180)            | —                 | —                             | —            | (180)        |
| Dividends paid-common stock  | (1,334)          | (1,514)           | —                             | 1,514        | (1,334)      |
| Redemption of Series A Preferred Stock   | (8,320)          | —                 | —                             | —            | (8,320)      |
| Other intercompany capital stock transactions                                  | —                | (8,320)           | 10                            | 8,310        | —            |
| Other financing activities, net  | —                | 45                | (2)                           | —            | 43           |
| Net cash provided by/(used for) financing activities                           | (9,834)          | (2,292)           | (589)                         | 10,526       | (2,189)      |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | —                | —                 | 1                             | —            | 1            |
| Cash, cash equivalents, and restricted cash:                                   |                  |                   |                               |              |              |
| Net increase/(decrease)  | —                | (447)             | (89)                          | —            | (536)        |
| Balance at beginning of period   | —                | 3,253             | 1,659                         | —            | 4,912        |
| Balance at end of period   | \$ —             | \$ 2,806          | \$ 1,570                      | \$ —         | \$ 4,376     |

The following tables provide a reconciliation of cash and cash equivalents, as reported on our unaudited condensed consolidating balance sheets, to cash, cash equivalents, and restricted cash, as reported on our unaudited condensed consolidating statements of cash flows (in millions):

|   | July 1, 2017     |                   |                               |              |                 |
|---|------------------|-------------------|-------------------------------|--------------|-----------------|
|   | Parent Guarantor | Subsidiary Issuer | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated    |
| Cash and cash equivalents                             | \$ —             | \$ 556            | \$ 889                        | \$ —         | \$ 1,445        |
| Restricted cash included in other assets (current)    | —                | 65                | 8                             | —            | 73              |
| Restricted cash included in other assets (noncurrent) | —                | —                 | —                             | —            | —               |
| Cash, cash equivalents, and restricted cash           | <u>\$ —</u>      | <u>\$ 621</u>     | <u>\$ 897</u>                 | <u>\$ —</u>  | <u>\$ 1,518</u> |

  

|   | December 31, 2016 |                   |                               |              |                 |
|---|-------------------|-------------------|-------------------------------|--------------|-----------------|
|   | Parent Guarantor  | Subsidiary Issuer | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated    |
| Cash and cash equivalents                             | \$ —              | \$ 2,830          | \$ 1,374                      | \$ —         | \$ 4,204        |
| Restricted cash included in other assets (current)    | —                 | 39                | 3                             | —            | 42              |
| Restricted cash included in other assets (noncurrent) | —                 | —                 | 9                             | —            | 9               |
| Cash, cash equivalents, and restricted cash           | <u>\$ —</u>       | <u>\$ 2,869</u>   | <u>\$ 1,386</u>               | <u>\$ —</u>  | <u>\$ 4,255</u> |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Overview

#### **Description of the Company:**

We manufacture and market food and beverage products, including condiments and sauces, cheese and dairy, meals, meats, refreshment beverages, coffee, and other grocery products throughout the world.

We manage and report our operating results through four segments. We have three reportable segments defined by geographic region: United States, Canada, and Europe. Our remaining businesses are combined and disclosed as Rest of World. Rest of World is comprised of two operating segments: Latin America and AMEA.

In the fourth quarter of 2016, we reorganized our segments to reflect the following:

- our Russia business moved from Rest of World to the Europe segment; and
- management of our Global Procurement Office moved from one of our European subsidiaries to our global headquarters, which resulted in moving the related costs from the Europe segment to general corporate expenses.

These changes are reflected in all historical periods presented and did not have a material impact on our condensed consolidated financial statements. See Note 18, *Segment Reporting*, to our consolidated financial statements for the year ended December 31, 2016 in our Annual Report on Form 10-K for additional information related to these changes.

### Items Affecting Comparability of Financial Results

#### **Integration and Restructuring Expenses:**

Related to integration and restructuring activities (including the multi-year Integration Program announced following the 2015 Merger), we recognized gains of \$6 million for the three months and expenses of \$142 million for the six months ended July 1, 2017 and expenses of \$284 million for the three months and \$544 million for the six months ended July 3, 2016. Integration Program amounts included in these totals were gains of \$49 million for the three months and expenses of \$78 million for the six months ended July 1, 2017 and expenses of \$259 million for the three months and \$500 million for the six months ended July 3, 2016.

The gains of \$6 million (total integration and restructuring) and \$49 million (Integration Program) in the current period were driven by a curtailment gain of \$168 million, which was classified as Integration Program expenses and more than offset other such expenses for the period. The curtailment gain resulted from postretirement plan remeasurements. These remeasurements were triggered by the number of cumulative headcount reductions after the closure of certain U.S. factories in the second quarter of 2017.

We expect to incur pre-tax costs of \$2.0 billion related to the Integration Program. As of July 1, 2017, we have incurred cumulative costs of \$1.8 billion. These costs primarily include severance and employee benefit costs (including cash and non-cash severance), costs to exit facilities (including non-cash costs such as accelerated depreciation), and other costs incurred as a direct result of integration activities related to the 2015 Merger.

Additionally, we anticipate capital expenditures of approximately \$1.3 billion related to the Integration Program. As of July 1, 2017, we have incurred \$1.2 billion in capital expenditures since the inception of the Integration Program. The Integration Program is designed to reduce costs, integrate, and optimize our combined organization and is expected to achieve \$1.7 billion of pre-tax savings by the end of 2017, primarily benefiting the United States and Canada segments. Since the inception of the Integration Program, our cumulative pre-tax savings achieved are approximately \$1,450 million.

See Note 2, *Integration and Restructuring Expenses*, to the condensed consolidated financial statements for additional information.

#### **Series A Preferred Stock:**

On June 7, 2016, we redeemed all outstanding shares of our Series A Preferred Stock. We funded this redemption primarily through the issuance of long-term debt in May 2016, as well as other sources of liquidity, including our commercial paper program, U.S. securitization program, and cash on hand.

### Results of Operations

We disclose in this report certain non-GAAP financial measures. These non-GAAP financial measures assist management in comparing our performance on a consistent basis for purposes of business decision-making by removing the impact of certain items that management believes do not directly reflect our underlying operations. For additional information and reconciliations from our condensed consolidated financial statements see *Non-GAAP Financial Measures*.

## Consolidated Results of Operations

### Summary of Results:

|   | For the Three Months Ended           |              |          | For the Six Months Ended             |              |          |
|---|--------------------------------------|--------------|----------|--------------------------------------|--------------|----------|
|   | July 1, 2017                         | July 3, 2016 | % Change | July 1, 2017                         | July 3, 2016 | % Change |
|   | (in millions, except per share data) |              |          | (in millions, except per share data) |              |          |
| Net sales   | \$ 6,677                             | \$ 6,793     | (1.7)%   | \$ 13,041                            | \$ 13,363    | (2.4)%   |
| Operating income                                      | 1,921                                | 1,636        | 17.5 %   | 3,472                                | 3,149        | 10.3 %   |
| Net income/(loss) attributable to common shareholders | 1,159                                | 770          | 50.5 %   | 2,052                                | 1,666        | 23.2 %   |
| Diluted earnings/(loss) per share                     | 0.94                                 | 0.63         | 49.2 %   | 1.67                                 | 1.36         | 22.8 %   |

### Net Sales:

|                                  | For the Three Months Ended |              |          | For the Six Months Ended |              |          |
|----------------------------------|----------------------------|--------------|----------|--------------------------|--------------|----------|
|                                  | July 1, 2017               | July 3, 2016 | % Change | July 1, 2017             | July 3, 2016 | % Change |
|                                  | (in millions)              |              |          | (in millions)            |              |          |
| Net sales                        | \$ 6,677                   | \$ 6,793     | (1.7)%   | \$ 13,041                | \$ 13,363    | (2.4)%   |
| Organic Net Sales <sup>(a)</sup> | 6,726                      | 6,784        | (0.9)%   | 13,105                   | 13,341       | (1.8)%   |

<sup>(a)</sup> Organic Net Sales is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

### Three Months Ended July 1, 2017 compared to the Three Months Ended July 3, 2016:

Net sales decreased 1.7% to \$6.7 billion for the three months ended July 1, 2017 compared to the prior period, partially due to the unfavorable impact of foreign currency (0.8 pp). Organic Net Sales decreased 0.9% due to unfavorable volume/mix (0.5 pp) and lower pricing (0.4 pp). Volume/mix was unfavorable in the U.S. and Rest of World, which was partially offset by growth in Europe and Canada. Lower pricing in Canada, the U.S., and Europe, was partially offset by higher pricing in Rest of World.

### Six Months Ended July 1, 2017 compared to the Six Months Ended July 3, 2016:

Net sales decreased 2.4% to \$13.0 billion for the six months ended July 1, 2017 compared to the prior period, partially due to the unfavorable impact of foreign currency (0.6 pp). Organic Net Sales decreased 1.8% due to unfavorable volume/mix (2.1 pp), partially offset by higher pricing (0.3 pp). Volume/mix was unfavorable in the U.S. and Canada, which was partially offset by growth in Rest of World and Europe. Higher pricing in Rest of World and the U.S. was partially offset by lower pricing in Canada and Europe.

### Net Income:

|   | For the Three Months Ended |              |          | For the Six Months Ended |              |          |
|---|----------------------------|--------------|----------|--------------------------|--------------|----------|
|   | July 1, 2017               | July 3, 2016 | % Change | July 1, 2017             | July 3, 2016 | % Change |
|   | (in millions)              |              |          | (in millions)            |              |          |
| Operating income                                      | \$ 1,921                   | \$ 1,636     | 17.5%    | \$ 3,472                 | \$ 3,149     | 10.3 %   |
| Net income/(loss) attributable to common shareholders | 1,159                      | 770          | 50.5%    | 2,052                    | 1,666        | 23.2 %   |
| Adjusted EBITDA <sup>(a)</sup>                        | 2,101                      | 2,087        | 0.7%     | 3,986                    | 4,038        | (1.3)%   |

<sup>(a)</sup> Adjusted EBITDA is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

### Three Months Ended July 1, 2017 compared to the Three Months Ended July 3, 2016:

Operating income increased 17.5% to \$1.9 billion for the three months ended July 1, 2017 compared to \$1.6 billion in the prior period. This increase was primarily due to lower Integration Program and other restructuring expenses in the current period, and improved commercial results, partially offset by lower unrealized gains on commodity hedges in the current period, and the unfavorable impact from foreign currency (1.3 pp).

Net income/(loss) attributable to common shareholders increased 50.5% to \$1.2 billion for the three months ended July 1, 2017 compared to \$770 million in the prior period. The increase was due to the growth in operating income, the absence of the Series A Preferred Stock dividend in the current period, and a lower effective tax rate, partially offset by higher interest expense and higher other expense/(income), net, detailed as follows:

- The Series A Preferred Stock was fully redeemed on June 7, 2016. Accordingly, for the three months ended July 1, 2017 there were no cash distributions for the related dividend, compared to cash distributions of \$180 million in the prior period.
- Interest expense increased to \$307 million for the three months ended July 1, 2017 compared to \$264 million in the prior period. This increase was primarily due to the May 2016 issuances of long-term debt in conjunction with the redemption of our Series A Preferred Stock on June 7, 2016, and borrowings under our commercial paper program, which began in the second quarter of 2016.
- Other expense/(income), net increased to \$24 million for the three months ended July 1, 2017 compared to \$6 million in the prior period. This increase was primarily due to a \$25 million nonmonetary devaluation loss in the current period compared to \$7 million in the prior period related to our Venezuelan operations.
- Our effective tax rate decreased to 27.1% for the three months ended July 1, 2017 compared to 30.1% in the prior period. The decrease in our effective tax rate was driven by the favorable impact of net discrete items, primarily related to reversals of uncertain tax position reserves in the U.S., and a favorable mix of income among our foreign subsidiaries. The favorable impact of current year net discrete items and foreign subsidiary income mix was partially offset by the unfavorable impact of a higher percentage of U.S. income reflected in our estimated full year effective tax rate for 2017 compared to 2016.

Adjusted EBITDA increased 0.7% to \$2.1 billion for the three months ended July 1, 2017 compared to the prior period, primarily due to savings from the Integration Program and other restructuring activities, partially offset by higher input costs in local currency, a decline in Organic Net Sales, the unfavorable impact of foreign currency (1.2 pp), and higher commercial investments. Segment Adjusted EBITDA results were as follows:

- United States Segment Adjusted EBITDA increased primarily due to Integration Program savings, partially offset by unfavorable key commodity costs (which we define as dairy, meat, coffee and nuts), primarily in cheese and coffee, and a decline in Organic Net Sales.
- Rest of World Segment Adjusted EBITDA decreased primarily due to higher commercial investments, higher input costs in local currency, and the unfavorable impact of foreign currency (3.0 pp), partially offset by Organic Net Sales growth.
- Europe Segment Adjusted EBITDA decreased primarily due to higher input costs in local currency, the unfavorable impact of foreign currency (6.2 pp), and lower pricing, partially offset by productivity savings.
- Canada Segment Adjusted EBITDA decreased primarily due to lower pricing and the unfavorable impact of foreign currency (3.5 pp), partially offset by Integration Program savings.

*Six Months Ended July 1, 2017 compared to the Six Months Ended July 3, 2016:*

Operating income increased 10.3% to \$3.5 billion for the six months ended July 1, 2017 compared to \$3.1 billion in the prior period. This increase was primarily due to lower Integration Program and other restructuring expenses in the current period, partially offset by lower unrealized gains on commodity hedges in the current period, the unfavorable impact of foreign currency (1.2 pp), and lower commercial results.

Net income/(loss) attributable to common shareholders increased 23.2% to \$2.1 billion for the six months ended July 1, 2017 compared to \$1.7 billion in the prior period. The increase was due to the growth in operating income, the absence of the Series A Preferred Stock dividend in the current period, and a lower effective tax rate, partially offset by higher interest expense and higher other expense/(income), net, detailed as follows:

- The Series A Preferred Stock was fully redeemed on June 7, 2016. Accordingly, for the six months ended July 1, 2017 there were no cash distributions for the related dividend, compared to cash distributions of \$180 million in the prior period.
- Interest expense increased to \$620 million for the six months ended July 1, 2017 compared to \$513 million in the prior period. This increase was primarily due to the May 2016 issuances of long-term debt in conjunction with the redemption of our Series A Preferred Stock on June 7, 2016, and borrowings under our commercial paper program, which began in the second quarter of 2016.
- Other expense/(income), net increased to \$12 million of expense for the six months ended July 1, 2017 compared to \$2 million of income in the prior period. This increase was primarily due to a \$33 million nonmonetary devaluation loss in the current period compared to \$7 million in the prior period related to our Venezuelan operations.

- Our effective tax rate decreased to 27.8% for the six months ended July 1, 2017 compared to 29.7% in the prior period. The decrease in our effective tax rate was driven by the favorable impact of net discrete items, primarily related to reversals of uncertain tax position reserves in foreign jurisdictions and the U.S., and a favorable mix of income among our foreign subsidiaries. The favorable impact of current year net discrete items and foreign subsidiary income mix was partially offset by the unfavorable impact of a higher percentage of U.S. income reflected in our estimated full year effective tax rate for 2017 compared to 2016.

Adjusted EBITDA decreased 1.3% to \$4.0 billion for the six months ended July 1, 2017 compared to the prior period, primarily due to higher local input costs, a decline in Organic Net Sales, and the unfavorable impact of foreign currency (1.1 pp), partially offset by savings from the Integration Program and other restructuring activities. Segment Adjusted EBITDA results were as follows:

- Rest of World Segment Adjusted EBITDA decreased primarily due to increased commercial investments, higher input costs in local currency, and the unfavorable impact of foreign currency (2.9 pp), partially offset by Organic Net Sales growth.
- Europe Segment Adjusted EBITDA decreased primarily due to higher input costs in local currency, and the unfavorable impact of foreign currency (7.9 pp), partially offset by productivity savings.
- Canada Segment Adjusted EBITDA decreased primarily due to a decline in Organic Net Sales, and the unfavorable impact of foreign currency (1.0 pp), partially offset by Integration Program savings.
- United States Segment Adjusted EBITDA increased primarily due to Integration Program savings, partially offset by unfavorable key commodity costs, primarily in cheese, coffee, and meat, and volume/mix declines.

#### Diluted EPS:

|                             | For the Three Months Ended           |              |          | For the Six Months Ended             |              |          |
|-----------------------------|--------------------------------------|--------------|----------|--------------------------------------|--------------|----------|
|                             | July 1, 2017                         | July 3, 2016 | % Change | July 1, 2017                         | July 3, 2016 | % Change |
|                             | (in millions, except per share data) |              |          | (in millions, except per share data) |              |          |
| Diluted EPS                 | \$ 0.94                              | \$ 0.63      | 49.2%    | \$ 1.67                              | \$ 1.36      | 22.8%    |
| Adjusted EPS <sup>(a)</sup> | 0.98                                 | 0.85         | 15.3%    | 1.82                                 | 1.58         | 15.2%    |

<sup>(a)</sup> Adjusted EPS is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

#### Three Months Ended July 1, 2017 compared to the Three Months Ended July 3, 2016:

Diluted EPS increased 49.2% to \$0.94 for the three months ended July 1, 2017 compared to \$0.63 in the prior period, primarily driven by the net income/(loss) attributable to common shareholders factors discussed above.

|   | For the Three Months Ended |              |           |          |
|---|----------------------------|--------------|-----------|----------|
|   | July 1, 2017               | July 3, 2016 | \$ Change | % Change |
| Diluted EPS                                   | \$ 0.94                    | \$ 0.63      | \$ 0.31   | 49.2%    |
| Integration and restructuring expenses        | —                          | 0.16         | (0.16)    |          |
| Merger costs                                  | —                          | 0.01         | (0.01)    |          |
| Unrealized losses/(gains) on commodity hedges | (0.01)                     | (0.02)       | 0.01      |          |
| Impairment losses                             | 0.03                       | 0.03         | —         |          |
| Nonmonetary currency devaluation              | 0.02                       | —            | 0.02      |          |
| Preferred dividend adjustment <sup>(a)</sup>  | —                          | 0.04         | (0.04)    |          |
| Adjusted EPS <sup>(b)</sup>                   | \$ 0.98                    | \$ 0.85      | \$ 0.13   | 15.3%    |

#### Key drivers of change in Adjusted EPS<sup>(b)</sup>:

|  |         |
|--|---------|
| Results of operations                  | \$ —    |
| Change in preferred dividends          | 0.10    |
| Change in interest expense             | (0.02)  |
| Change in effective tax rate and other | 0.05    |
|  | \$ 0.13 |

<sup>(a)</sup> For Adjusted EPS, we present the impact of the Series A Preferred Stock dividend payments on an accrual basis. Accordingly, we included an adjustment to EPS to exclude \$51 million of Series A Preferred Stock dividends from the second quarter of 2016 (to reflect that it had been redeemed on June 7, 2016).

<sup>(b)</sup> Adjusted EPS is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

Adjusted EPS increased 15.3% to \$0.98 for the three months ended July 1, 2017, compared to \$0.85 in the prior period, primarily driven by the absence of a Series A Preferred Stock dividend in the current period and a lower effective tax rate, partially offset by higher interest expense.

*Six Months Ended July 1, 2017 compared to the Six Months Ended July 3, 2016:*

Diluted EPS increased 22.8% to \$1.67 for the six months ended July 1, 2017 compared to \$1.36 in the prior period, primarily driven by the net income/(loss) attributable to common shareholders factors discussed above.

|   | <b>For the Six Months Ended</b> |                         |                  |                 |
|---|---------------------------------|-------------------------|------------------|-----------------|
|   | <b>July 1,<br/>2017</b>         | <b>July 3,<br/>2016</b> | <b>\$ Change</b> | <b>% Change</b> |
| Diluted EPS                                   | \$ 1.67                         | \$ 1.36                 | \$ 0.31          | 22.8%           |
| Integration and restructuring expenses        | 0.08                            | 0.30                    | (0.22)           |                 |
| Merger costs                                  | —                               | 0.02                    | (0.02)           |                 |
| Unrealized losses/(gains) on commodity hedges | 0.01                            | (0.03)                  | 0.04             |                 |
| Impairment losses                             | 0.03                            | 0.03                    | —                |                 |
| Nonmonetary currency devaluation              | 0.03                            | 0.01                    | 0.02             |                 |
| Preferred dividend adjustment <sup>(a)</sup>  | —                               | (0.11)                  | 0.11             |                 |
| Adjusted EPS <sup>(b)</sup>                   | \$ 1.82                         | \$ 1.58                 | \$ 0.24          | 15.2%           |

Key drivers of change in Adjusted EPS<sup>(b)</sup>:

|  |                |
|--|----------------|
| Results of operations                  | \$ (0.02)      |
| Change in preferred dividends          | 0.25           |
| Change in interest expense             | (0.06)         |
| Change in other expense/(income), net  | 0.01           |
| Change in effective tax rate and other | 0.06           |
|  | <u>\$ 0.24</u> |

<sup>(a)</sup> For Adjusted EPS, we present the impact of the Series A Preferred Stock dividend payments on an accrual basis. Accordingly, we included an adjustment to EPS to include \$180 million of Series A Preferred Stock dividends in the first quarter of 2016 (to reflect the March 7, 2016 Series A Preferred Stock dividend that was paid in December 2015), and to exclude \$51 million of Series A Preferred Stock dividends from the second quarter of 2016 (to reflect that it was redeemed on June 7, 2016).

<sup>(b)</sup> Adjusted EPS is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

Adjusted EPS increased 15.2% to \$1.82 for the six months ended July 1, 2017 compared to \$1.58 in the prior period, primarily driven by the absence of a Series A Preferred Stock dividend in the current period, a lower effective tax rate, and higher other expense/(income), net, partially offset by higher interest expense and lower Adjusted EBITDA.

## Results of Operations by Segment

Management evaluates segment performance based on several factors, including net sales, Organic Net Sales, and Segment Adjusted EBITDA. Management uses Segment Adjusted EBITDA to evaluate segment performance and allocate resources. Segment Adjusted EBITDA is a tool that can assist management and investors in comparing our performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our underlying operations. These items include depreciation and amortization (including amortization of postretirement benefit plans prior service credits), equity award compensation expense, integration and restructuring expenses, merger costs, unrealized gains/(losses) on commodity hedges (the unrealized gains and losses are recorded in general corporate expenses until realized; once realized, the gains and losses are recorded in the applicable segment's operating results), impairment losses, gains/(losses) on the sale of a business, and nonmonetary currency devaluation (e.g., remeasurement gains and losses).

**Net Sales:**

|                        | For the Three Months Ended |                 | For the Six Months Ended |                  |
|------------------------|----------------------------|-----------------|--------------------------|------------------|
|                        | July 1, 2017               | July 3, 2016    | July 1, 2017             | July 3, 2016     |
| (in millions)          |                            |                 |                          |                  |
| <b>Net sales:</b>      |                            |                 |                          |                  |
| United States          | \$ 4,634                   | \$ 4,692        | \$ 9,186                 | \$ 9,407         |
| Canada                 | 597                        | 638             | 1,040                    | 1,142            |
| Europe                 | 595                        | 625             | 1,138                    | 1,208            |
| Rest of World          | 851                        | 838             | 1,677                    | 1,606            |
| <b>Total net sales</b> | <b>\$ 6,677</b>            | <b>\$ 6,793</b> | <b>\$ 13,041</b>         | <b>\$ 13,363</b> |

**Organic Net Sales:**

|   | For the Three Months Ended |                 | For the Six Months Ended |                  |
|---|----------------------------|-----------------|--------------------------|------------------|
|   | July 1, 2017               | July 3, 2016    | July 1, 2017             | July 3, 2016     |
| (in millions)                           |                            |                 |                          |                  |
| <b>Organic Net Sales<sup>(a)</sup>:</b> |                            |                 |                          |                  |
| United States                           | \$ 4,634                   | \$ 4,692        | \$ 9,186                 | \$ 9,407         |
| Canada                                  | 618                        | 638             | 1,047                    | 1,142            |
| Europe                                  | 620                        | 625             | 1,202                    | 1,208            |
| Rest of World                           | 854                        | 829             | 1,670                    | 1,584            |
| <b>Total Organic Net Sales</b>          | <b>\$ 6,726</b>            | <b>\$ 6,784</b> | <b>\$ 13,105</b>         | <b>\$ 13,341</b> |

<sup>(a)</sup> Organic Net Sales is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

Drivers of the changes in net sales and Organic Net Sales were:

|  | Net Sales | Impact of Currency | Organic Net Sales | Price    | Volume/Mix |
|--|-----------|--------------------|-------------------|----------|------------|
| <b>Three Months Ended July 1, 2017 compared to Three Months Ended July 3, 2016</b> |           |                    |                   |          |            |
| United States  | (1.2)%    | 0.0 pp             | (1.2)%            | (0.4) pp | (0.8) pp   |
| Canada   | (6.4)%    | (3.3) pp           | (3.1)%            | (3.7) pp | 0.6 pp     |
| Europe   | (4.9)%    | (4.1) pp           | (0.8)%            | (1.6) pp | 0.8 pp     |
| Rest of World  | 1.6 %     | (1.4) pp           | 3.0 %             | 3.7 pp   | (0.7) pp   |
| Kraft Heinz  | (1.7)%    | (0.8) pp           | (0.9)%            | (0.4) pp | (0.5) pp   |
| <b>Six Months Ended July 1, 2017 compared to Six Months Ended July 3, 2016</b>     |           |                    |                   |          |            |
| United States  | (2.4)%    | 0.0 pp             | (2.4)%            | 0.1 pp   | (2.5) pp   |
| Canada   | (8.9)%    | (0.6) pp           | (8.3)%            | (2.5) pp | (5.8) pp   |
| Europe   | (5.8)%    | (5.3) pp           | (0.5)%            | (1.1) pp | 0.6 pp     |
| Rest of World  | 4.4 %     | (1.0) pp           | 5.4 %             | 4.3 pp   | 1.1 pp     |
| Kraft Heinz  | (2.4)%    | (0.6) pp           | (1.8)%            | 0.3 pp   | (2.1) pp   |

**Adjusted EBITDA:**

|  | For the Three Months Ended |              | For the Six Months Ended |              |
|--|----------------------------|--------------|--------------------------|--------------|
|  | July 1, 2017               | July 3, 2016 | July 1, 2017             | July 3, 2016 |
|  | (in millions)              |              |                          |              |
| Segment Adjusted EBITDA:   |                            |              |                          |              |
| United States  | \$ 1,566                   | \$ 1,518     | \$ 3,038                 | \$ 3,011     |
| Canada   | 189                        | 192          | 315                      | 343          |
| Europe   | 202                        | 221          | 372                      | 401          |
| Rest of World  | 180                        | 202          | 326                      | 368          |
| General corporate expenses   | (36)                       | (46)         | (65)                     | (85)         |
| Depreciation and amortization (excluding integration and restructuring expenses)     | (137)                      | (124)        | (269)                    | (285)        |
| Integration and restructuring expenses   | 6                          | (284)        | (142)                    | (544)        |
| Merger costs   | —                          | (14)         | —                        | (29)         |
| Unrealized gains/(losses) on commodity hedges  | 13                         | 37           | (29)                     | 45           |
| Impairment losses  | (48)                       | (53)         | (48)                     | (53)         |
| Nonmonetary currency devaluation   | —                          | (2)          | —                        | (3)          |
| Equity award compensation expense (excluding integration and restructuring expenses) | (14)                       | (11)         | (26)                     | (20)         |
| Operating income   | 1,921                      | 1,636        | 3,472                    | 3,149        |
| Interest expense   | 307                        | 264          | 620                      | 513          |
| Other expense/(income), net  | 24                         | 6            | 12                       | (2)          |
| Income/(loss) before income taxes  | \$ 1,590                   | \$ 1,366     | \$ 2,840                 | \$ 2,638     |

**United States:**

|                                  | For the Three Months Ended |              |          | For the Six Months Ended |              |          |
|----------------------------------|----------------------------|--------------|----------|--------------------------|--------------|----------|
|                                  | July 1, 2017               | July 3, 2016 | % Change | July 1, 2017             | July 3, 2016 | % Change |
|                                  | (in millions)              |              |          | (in millions)            |              |          |
| Net sales                        | \$ 4,634                   | \$ 4,692     | (1.2)%   | \$ 9,186                 | \$ 9,407     | (2.4)%   |
| Organic Net Sales <sup>(a)</sup> | 4,634                      | 4,692        | (1.2)%   | 9,186                    | 9,407        | (2.4)%   |
| Segment Adjusted EBITDA          | 1,566                      | 1,518        | 3.2 %    | 3,038                    | 3,011        | 0.9 %    |

<sup>(a)</sup> Organic Net Sales is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

**Three Months Ended July 1, 2017 compared to the Three Months Ended July 3, 2016:**

Net sales and Organic Net Sales decreased 1.2% to \$4.6 billion due to unfavorable volume/mix (0.8 pp) and lower pricing (0.4 pp). Unfavorable volume/mix was primarily driven by distribution losses in cheese and meat and lower shipments in foodservice. The decline was partially offset by the benefit from a shift in Easter-related sales as well as gains in frozen, boxed dinners, and condiments and sauces. Pricing was lower primarily due to timing of trade promotion recognition in the prior period, partially offset by current year price increases in cheese.

Segment Adjusted EBITDA increased 3.2% primarily due to Integration Program savings, partially offset by unfavorable key commodity costs, primarily in cheese and coffee, and lower Organic Net Sales.

**Six Months Ended July 1, 2017 compared to the Six Months Ended July 3, 2016:**

Net sales and Organic Net Sales decreased 2.4% to \$9.2 billion due to unfavorable volume/mix (2.5 pp) partially offset by higher pricing (0.1 pp). Unfavorable volume/mix was primarily driven by distribution losses in cheese and meat, lower shipments in foodservice, and declines in nuts. The decline was partially offset by gains in refrigerated meal combinations, boxed dinners, and frozen meals. Higher pricing primarily reflected current year price increases in cheese, partially offset by timing of trade promotion recognition in the prior period.

Segment Adjusted EBITDA increased 0.9% primarily due to Integration Program savings, partially offset by unfavorable key commodity costs, primarily in cheese, coffee, and meat, and volume/mix declines.

**Canada:**

|                                  | For the Three Months Ended |              |          | For the Six Months Ended |              |          |
|----------------------------------|----------------------------|--------------|----------|--------------------------|--------------|----------|
|                                  | July 1, 2017               | July 3, 2016 | % Change | July 1, 2017             | July 3, 2016 | % Change |
|                                  | (in millions)              |              |          | (in millions)            |              |          |
| Net sales                        | \$ 597                     | \$ 638       | (6.4)%   | \$ 1,040                 | \$ 1,142     | (8.9)%   |
| Organic Net Sales <sup>(a)</sup> | 618                        | 638          | (3.1)%   | 1,047                    | 1,142        | (8.3)%   |
| Segment Adjusted EBITDA          | 189                        | 192          | (1.2)%   | 315                      | 343          | (8.0)%   |

<sup>(a)</sup> Organic Net Sales is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

*Three Months Ended July 1, 2017 compared to the Three Months Ended July 3, 2016:*

Net sales decreased 6.4% to \$597 million, including the unfavorable impact of foreign currency (3.3 pp). Organic Net Sales decreased 3.1% due to lower pricing (3.7 pp) partially offset by favorable volume/mix (0.6 pp). Pricing was lower across most categories primarily due to higher promotional levels versus the prior period. Favorable volume/mix reflected growth in condiments and sauces, partially offset by retail distribution losses (primarily in cheese).

Segment Adjusted EBITDA decreased 1.2%, including the unfavorable impact of foreign currency (3.5 pp). Excluding the currency impact, Segment Adjusted EBITDA increased primarily due to Integration Program savings, partially offset by lower pricing.

*Six Months Ended July 1, 2017 compared to the Six Months Ended July 3, 2016:*

Net sales decreased 8.9% to \$1.0 billion, including the unfavorable impact of foreign currency (0.6 pp). Organic Net Sales decreased 8.3% due to unfavorable volume/mix (5.8 pp) and lower pricing (2.5 pp). Volume/mix was unfavorable across most categories and was most pronounced in cheese and coffee, primarily due to delayed execution of go-to-market agreements with key retailers and retail distribution losses (primarily in cheese). Lower pricing was primarily due to higher promotional levels versus the prior period.

Segment Adjusted EBITDA decreased 8.0%, including the unfavorable impact of foreign currency (1.0 pp). Excluding the currency impact, the decrease was primarily due to lower Organic Net Sales, partially offset by Integration Program savings.

**Europe:**

|                                  | For the Three Months Ended |              |          | For the Six Months Ended |              |          |
|----------------------------------|----------------------------|--------------|----------|--------------------------|--------------|----------|
|                                  | July 1, 2017               | July 3, 2016 | % Change | July 1, 2017             | July 3, 2016 | % Change |
|                                  | (in millions)              |              |          | (in millions)            |              |          |
| Net sales                        | \$ 595                     | \$ 625       | (4.9)%   | \$ 1,138                 | \$ 1,208     | (5.8)%   |
| Organic Net Sales <sup>(a)</sup> | 620                        | 625          | (0.8)%   | 1,202                    | 1,208        | (0.5)%   |
| Segment Adjusted EBITDA          | 202                        | 221          | (8.6)%   | 372                      | 401          | (7.2)%   |

<sup>(a)</sup> Organic Net Sales is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

*Three Months Ended July 1, 2017 compared to the Three Months Ended July 3, 2016:*

Net sales decreased 4.9% to \$595 million, including the unfavorable impact of foreign currency (4.1 pp). Organic Net Sales decreased 0.8% due to lower pricing (1.6 pp) partially offset by favorable volume/mix (0.8 pp). Lower pricing was primarily due to higher promotional activity, primarily in the UK and Italy, versus the prior period. Favorable volume/mix was driven primarily by growth in condiments and sauces and higher shipments in foodservice, partially offset by shipment timing versus the prior period, and declines in infant nutrition in Italy.

Segment Adjusted EBITDA decreased 8.6%, including the unfavorable impact of foreign currency (6.2 pp). Excluding the currency impact, the decrease was primarily due to higher input costs in local currency and lower pricing, partially offset by productivity savings.

*Six Months Ended July 1, 2017 compared to the Six Months Ended July 3, 2016:*

Net sales decreased 5.8% to \$1.1 billion, including the unfavorable impact of foreign currency (5.3 pp). Organic Net Sales decreased 0.5% due to lower pricing (1.1 pp) partially offset by favorable volume/mix (0.6 pp). Lower pricing was primarily due to higher promotional activity in the UK and Italy versus the prior period. Favorable volume/mix was driven by higher shipments in foodservice and growth in condiments and sauces, partially offset by declines in infant nutrition in Italy.

Segment Adjusted EBITDA decreased 7.2%, including the unfavorable impact of foreign currency (7.9 pp). Excluding the currency impact, Segment Adjusted EBITDA increased primarily due to productivity savings partially offset by higher input costs in local currency.

**Rest of World:**

|                                  | For the Three Months Ended |              |          | For the Six Months Ended |              |          |
|----------------------------------|----------------------------|--------------|----------|--------------------------|--------------|----------|
|                                  | July 1, 2017               | July 3, 2016 | % Change | July 1, 2017             | July 3, 2016 | % Change |
|                                  | (in millions)              |              |          | (in millions)            |              |          |
| Net sales                        | \$ 851                     | \$ 838       | 1.6 %    | \$ 1,677                 | \$ 1,606     | 4.4 %    |
| Organic Net Sales <sup>(a)</sup> | 854                        | 829          | 3.0 %    | 1,670                    | 1,584        | 5.4 %    |
| Segment Adjusted EBITDA          | 180                        | 202          | (11.6)%  | 326                      | 368          | (11.7)%  |

<sup>(a)</sup> Organic Net Sales is a non-GAAP financial measure. See the *Non-GAAP Financial Measures* section at the end of this item.

*Three Months Ended July 1, 2017 compared to the Three Months Ended July 3, 2016:*

Net sales increased 1.6% to \$851 million despite the unfavorable impact of foreign currency (1.4 pp). Organic Net Sales increased 3.0% driven by higher pricing (3.7 pp), partially offset by unfavorable volume/mix (0.7 pp). Higher pricing was primarily driven by pricing actions taken to offset higher input costs in local currency, primarily in Latin America. Unfavorable volume/mix was primarily driven by lower shipments in India (following implementation of the goods and services tax and continued deterioration of nutritional beverages), unfavorable shipment timing on seasonal holiday categories in Indonesia, and declines in several markets associated with distributor network re-alignment. These volume/mix declines were partially offset by growth in condiments and sauces across the regions.

Segment Adjusted EBITDA decreased 11.6%, including the unfavorable impact of foreign currency (3.0 pp). Excluding the currency impact, Segment Adjusted EBITDA decreased primarily due to higher commercial investments, and higher input costs in local currency, partially offset by Organic Net Sales growth.

*Six Months Ended July 1, 2017 compared to the Six Months Ended July 3, 2016:*

Net sales increased 4.4% to \$1.7 billion despite the unfavorable impact of foreign currency (1.0 pp). Organic Net Sales increased 5.4% driven by higher pricing (4.3 pp) and favorable volume/mix (1.1 pp). Higher pricing was primarily driven by pricing actions taken to offset higher input costs in local currency, primarily in Latin America. Favorable volume/mix was primarily driven by growth in condiments and sauces across the region, partially offset by volume/mix declines in several markets associated with distributor network re-alignment.

Segment Adjusted EBITDA decreased 11.7%, including the unfavorable impact of foreign currency (2.9 pp). Excluding the currency impact, Segment Adjusted EBITDA decreased primarily due to higher commercial investments, and higher input costs in local currency, partially offset by Organic Net Sales growth.

**Liquidity and Capital Resources**

We believe that cash generated from our operating activities, securitization programs, commercial paper programs, and Revolving Credit Facility (as defined below) will provide sufficient liquidity to meet our working capital needs, expected Integration Program and restructuring expenditures, planned capital expenditures, contributions to our postemployment benefit plans, future contractual obligations (including repayments of long-term debt), and payment of our anticipated quarterly dividends. We intend to use our cash on hand and our commercial paper program for daily funding requirements. Overall, we do not expect any negative effects on our funding sources that would have a material effect on our short-term or long-term liquidity.

**Cash Flow Activity for 2017 compared to 2016:**

*Net Cash Provided by/Used for Operating Activities:*

Net cash used for operating activities was \$178 million for the six months ended July 1, 2017 compared to net cash provided by operating activities of \$899 million for the six months ended July 3, 2016. The change was primarily driven by the timing of payments related to customer promotional activities, income taxes, and employee bonuses, lower collections on trade receivables as more were non-cash exchanged for sold receivables, and increased inventory costs, primarily driven by higher key commodity costs in the U.S. These changes were partially offset by lower pension contributions in the current year.

***Net Cash Provided by/Used for Investing Activities:***

Net cash provided by investing activities was \$423 million for the six months ended July 1, 2017 compared to \$753 million for the six months ended July 3, 2016. The decrease in cash provided by investing activities was primarily due to increased capital expenditures of \$176 million as well as lower cash inflows from our accounts receivable securitization and factoring programs. The increase in capital expenditures was primarily due to increased integration and restructuring activities in the U.S. and Canada. We expect 2017 capital expenditures to be approximately \$1.2 billion, including capital expenditures required for our ongoing integration and restructuring activities.

***Net Cash Provided by/Used for Financing Activities:***

Net cash used for financing activities was \$3.0 billion for the six months ended July 1, 2017 compared to \$2.2 billion for the six months ended July 3, 2016. This increase was primarily driven by long-term debt repayments in the second quarter of 2017 and increased cash distributions related to common stock dividends. Together, these items exceeded prior year net cash outflows related to our Series A Preferred Stock redemption and the related preferred dividend payments prior to redemption on June 7, 2016. We funded this redemption primarily through the issuance of long-term debt in May 2016, as well as other sources of liquidity, including our commercial paper program, U.S. securitization program, and cash on hand. See *Equity and Dividends* for further information on our Series A Preferred Stock dividends and common stock dividends.

***Cash Held by International Subsidiaries:***

Of the \$1.4 billion cash and cash equivalents on our condensed consolidated balance sheet at July 1, 2017, \$0.9 billion was held by international subsidiaries.

We consider the unremitted earnings of our international subsidiaries that have not been previously taxed in the U.S. to be indefinitely reinvested. For those undistributed earnings considered to be indefinitely reinvested, our intent is to reinvest these earnings in our international operations, and our current plans do not demonstrate a need to repatriate the accumulated earnings to fund our U.S. cash requirements. If we decide at a later date to repatriate these earnings to the U.S., we would be required to pay taxes on these amounts based on the applicable U.S. tax rates net of credits for foreign taxes already paid.

Certain previously taxed earnings have not yet been remitted and certain intercompany loans have not yet been repaid. As a result, in future periods, we believe that we could remit up to approximately \$2.0 billion of cash to the U.S. without incurring any additional significant income tax expense.

***Total Debt:***

We had commercial paper outstanding of \$1.1 billion at July 1, 2017 and \$642 million at December 31, 2016. The maximum amount of commercial paper outstanding during the six months ended July 1, 2017 was not significantly different than the amount outstanding at July 1, 2017.

We maintain our Senior Credit Facilities (as defined below) comprised of our \$4.0 billion senior unsecured revolving credit facility (the “Revolving Credit Facility”) and a \$600 million senior unsecured loan facility (the “Term Loan Facility” and, together with the Revolving Credit Facility, the “Senior Credit Facilities”). Subject to certain conditions, we may increase the amount of revolving commitments and/or add additional tranches of term loans in a combined aggregate amount of up to \$1.0 billion. Our Senior Credit Facilities contain customary representations, covenants, and events of default. At July 1, 2017, \$600 million aggregate principal amount of our Term Loan Facility was outstanding. No amounts were drawn on our Revolving Credit Facility at July 1, 2017 or during the six months ended July 1, 2017.

Our long-term debt, including the current portion, was \$30.0 billion at July 1, 2017 and \$31.8 billion at December 31, 2016. The decrease in long-term debt was primarily due to our repayment of approximately \$2.0 billion aggregate principal amount of senior notes that matured in the second quarter of 2017. We funded these long-term debt repayments primarily with cash on hand and our commercial paper programs. Our long-term debt contains customary representations, covenants, and events of default. We were in compliance with all such covenants at July 1, 2017.

## Commodity Trends

We purchase and use large quantities of commodities, including dairy products, meat products, coffee beans, nuts, tomatoes, potatoes, soybean and vegetable oils, sugar and other sweeteners, corn products, and wheat to manufacture our products. In addition, we purchase and use significant quantities of resins, metals, and cardboard to package our products and natural gas to operate our facilities. We continuously monitor worldwide supply and cost trends of these commodities.

We define our key commodities as dairy, meat, coffee, and nuts. During the six months ended July 1, 2017, we experienced increases in our key commodities, including cheese, coffee, and meat, while costs for nuts were flat. We expect commodity cost volatility to continue over the remainder of the year. We manage commodity cost volatility primarily through pricing and risk management strategies. As a result of these risk management strategies, our commodity costs may not immediately correlate with market price trends.

## Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

We repaid \$2.0 billion aggregate principal amount of senior notes that matured in the second quarter of 2017. We funded these long-term debt repayments primarily with cash on hand and our commercial paper programs.

There were no other material changes to our off-balance sheet arrangements or aggregate contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

## Equity and Dividends

### **Series A Preferred Stock Dividends:**

On June 7, 2016, we redeemed all outstanding shares of our Series A Preferred Stock, therefore we no longer pay any associated dividends.

Prior to the redemption, we made cash distributions of \$180 million in the six months ended July 3, 2016 related to the Series A Preferred Stock dividend. There were no cash distributions related to our Series A Preferred Stock for the three months ended April 3, 2016 because, concurrent with the declaration of our common stock dividend on December 8, 2015, we also declared and paid the Series A Preferred Stock dividend that would otherwise have been payable on March 7, 2016.

### **Common Stock Dividends:**

We paid common stock dividends of \$1.4 billion for the six months ended July 1, 2017 and \$1.3 billion for the six months ended July 3, 2016. Additionally, on August 3, 2017, our Board of Directors declared a cash dividend of \$0.625 per share of common stock, which is payable on September 15, 2017 to shareholders of record on August 18, 2017.

The declaration of dividends is subject to the discretion of our Board of Directors and depends on various factors, including our net income, financial condition, cash requirements, future prospects, and other factors that our Board of Directors deems relevant to its analysis and decision making.

## Significant Accounting Estimates

We prepare our condensed consolidated financial statements in conformity with U.S. GAAP. The preparation of these financial statements requires the use of estimates, judgments, and assumptions. Our significant accounting policies are described in Note 1, *Background and Basis of Presentation*, to our consolidated financial statements for the year ended December 31, 2016 in our Annual Report on Form 10-K. Our significant accounting assumptions and estimates are described in our Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2016 in our Annual Report on Form 10-K.

## Recently Issued Accounting Standards

See Note 1, *Background and Basis of Presentation*, to the condensed consolidated financial statements for a discussion of recently issued accounting standards.

## Contingencies

See Note 13, *Commitments, Contingencies and Debt*, to the condensed consolidated financial statements for a discussion of our contingencies.

## Non-GAAP Financial Measures

Our non-GAAP financial measures provided should be viewed in addition to, and not as an alternative for, results prepared in accordance with U.S. GAAP.

To supplement the consolidated financial statements prepared in accordance with U.S. GAAP, we have presented Organic Net Sales, Adjusted EBITDA, and Adjusted EPS, which are considered non-GAAP financial measures. The non-GAAP financial measures presented may differ from similarly titled non-GAAP financial measures presented by other companies, and other companies may not define these non-GAAP financial measures in the same way. These measures are not substitutes for their comparable U.S. GAAP financial measures, such as net sales, net income/(loss), diluted earnings per common share, or other measures prescribed by U.S. GAAP, and there are limitations to using non-GAAP financial measures.

Management uses these non-GAAP financial measures to assist in comparing our performance on a consistent basis for purposes of business decision making by removing the impact of certain items that management believes do not directly reflect our underlying operations. Management believes that presenting our non-GAAP financial measures (i.e., Organic Net Sales, Adjusted EBITDA, and Adjusted EPS) is useful to investors because it (i) provides investors with meaningful supplemental information regarding financial performance by excluding certain items, (ii) permits investors to view performance using the same tools that management uses to budget, make operating and strategic decisions, and evaluate historical performance, and (iii) otherwise provides supplemental information that may be useful to investors in evaluating our results. We believe that the presentation of these non-GAAP financial measures, when considered together with the corresponding U.S. GAAP financial measures and the reconciliations to those measures, provides investors with additional understanding of the factors and trends affecting our business than could be obtained absent these disclosures.

Organic Net Sales is defined as net sales excluding, when they occur, the impact of acquisitions, currency, divestitures, and a 53rd week of shipments. We calculate the impact of currency on net sales by holding exchange rates constant at the previous year's exchange rate, with the exception of Venezuela following our June 28, 2015 currency devaluation, for which we calculate the previous year's results using the current year's exchange rate. Organic Net Sales is a tool that can assist management and investors in comparing our performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our underlying operations.

Adjusted EBITDA is defined as net income/(loss) from continuing operations before interest expense, other expense/(income), net, provision for/(benefit from) income taxes; in addition to these adjustments, we exclude, when they occur, the impacts of depreciation and amortization (excluding integration and restructuring expenses) (including amortization of postretirement benefit plans prior service credits), integration and restructuring expenses, merger costs, unrealized losses/(gains) on commodity hedges, impairment losses, losses/(gains) on the sale of a business, nonmonetary currency devaluation (e.g., remeasurement gains and losses), and equity award compensation expense (excluding integration and restructuring expenses). Adjusted EBITDA is a tool that can assist management and investors in comparing our performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our underlying operations.

Adjusted EPS is defined as diluted earnings per share excluding, when they occur, the impacts of integration and restructuring expenses, merger costs, unrealized losses/(gains) on commodity hedges, impairment losses, losses/(gains) on the sale of a business, and nonmonetary currency devaluation (e.g., remeasurement gains and losses), and including when they occur, adjustments to reflect preferred stock dividend payments on an accrual basis. We believe Adjusted EPS provides important comparability of underlying operating results, allowing investors and management to assess operating performance on a consistent basis.

The Kraft Heinz Company  
Reconciliation of Net Sales to Organic Net Sales  
For the Three Months Ended July 1, 2017 and July 3, 2016  
(dollars in millions)  
(Unaudited)

|                     | Net Sales       | Impact of<br>Currency | Organic Net Sales | Price | Volume/Mix |
|---------------------|-----------------|-----------------------|-------------------|-------|------------|
| <b>July 1, 2017</b> |                 |                       |                   |       |            |
| United States       | \$ 4,634        | \$ —                  | \$ 4,634          |       |            |
| Canada              | 597             | (21)                  | 618               |       |            |
| Europe              | 595             | (25)                  | 620               |       |            |
| Rest of World       | 851             | (3)                   | 854               |       |            |
|                     | <u>\$ 6,677</u> | <u>\$ (49)</u>        | <u>\$ 6,726</u>   |       |            |

|                     |                 |             |                 |  |  |
|---------------------|-----------------|-------------|-----------------|--|--|
| <b>July 3, 2016</b> |                 |             |                 |  |  |
| United States       | \$ 4,692        | \$ —        | \$ 4,692        |  |  |
| Canada              | 638             | —           | 638             |  |  |
| Europe              | 625             | —           | 625             |  |  |
| Rest of World       | 838             | 9           | 829             |  |  |
|                     | <u>\$ 6,793</u> | <u>\$ 9</u> | <u>\$ 6,784</u> |  |  |

**Year-over-year growth rates**

|               |        |          |        |          |          |
|---------------|--------|----------|--------|----------|----------|
| United States | (1.2)% | 0.0 pp   | (1.2)% | (0.4) pp | (0.8) pp |
| Canada        | (6.4)% | (3.3) pp | (3.1)% | (3.7) pp | 0.6 pp   |
| Europe        | (4.9)% | (4.1) pp | (0.8)% | (1.6) pp | 0.8 pp   |
| Rest of World | 1.6 %  | (1.4) pp | 3.0 %  | 3.7 pp   | (0.7) pp |
| Kraft Heinz   | (1.7)% | (0.8) pp | (0.9)% | (0.4) pp | (0.5) pp |

The Kraft Heinz Company  
Reconciliation of Net Sales to Organic Net Sales  
For the Six Months Ended July 1, 2017 and July 3, 2016  
(dollars in millions)  
(Unaudited)

|                     | Net Sales        | Impact of<br>Currency | Organic Net Sales | Price | Volume/Mix |
|---------------------|------------------|-----------------------|-------------------|-------|------------|
| <b>July 1, 2017</b> |                  |                       |                   |       |            |
| United States       | \$ 9,186         | \$ —                  | \$ 9,186          |       |            |
| Canada              | 1,040            | (7)                   | 1,047             |       |            |
| Europe              | 1,138            | (64)                  | 1,202             |       |            |
| Rest of World       | 1,677            | 7                     | 1,670             |       |            |
|                     | <u>\$ 13,041</u> | <u>\$ (64)</u>        | <u>\$ 13,105</u>  |       |            |

|                     |                  |              |                  |  |  |
|---------------------|------------------|--------------|------------------|--|--|
| <b>July 3, 2016</b> |                  |              |                  |  |  |
| United States       | \$ 9,407         | \$ —         | \$ 9,407         |  |  |
| Canada              | 1,142            | —            | 1,142            |  |  |
| Europe              | 1,208            | —            | 1,208            |  |  |
| Rest of World       | 1,606            | 22           | 1,584            |  |  |
|                     | <u>\$ 13,363</u> | <u>\$ 22</u> | <u>\$ 13,341</u> |  |  |

**Year-over-year growth rates**

|               |        |          |        |          |          |
|---------------|--------|----------|--------|----------|----------|
| United States | (2.4)% | 0.0 pp   | (2.4)% | 0.1 pp   | (2.5) pp |
| Canada        | (8.9)% | (0.6) pp | (8.3)% | (2.5) pp | (5.8) pp |
| Europe        | (5.8)% | (5.3) pp | (0.5)% | (1.1) pp | 0.6 pp   |
| Rest of World | 4.4 %  | (1.0) pp | 5.4 %  | 4.3 pp   | 1.1 pp   |
| Kraft Heinz   | (2.4)% | (0.6) pp | (1.8)% | 0.3 pp   | (2.1) pp |

The Kraft Heinz Company  
Reconciliation of Net Income/(Loss) to Adjusted EBITDA  
(in millions)  
(Unaudited)

|  | For the Three Months Ended |                 | For the Six Months Ended |                 |
|--|----------------------------|-----------------|--------------------------|-----------------|
|  | July 1,<br>2017            | July 3,<br>2016 | July 1,<br>2017          | July 3,<br>2016 |
| Net income/(loss)  | \$ 1,160                   | \$ 955          | \$ 2,051                 | \$ 1,855        |
| Interest expense   | 307                        | 264             | 620                      | 513             |
| Other expense/(income), net  | 24                         | 6               | 12                       | (2)             |
| Provision for/(benefit from) income taxes  | 430                        | 411             | 789                      | 783             |
| Operating income   | 1,921                      | 1,636           | 3,472                    | 3,149           |
| Depreciation and amortization (excluding integration and restructuring expenses)     | 137                        | 124             | 269                      | 285             |
| Integration and restructuring expenses   | (6)                        | 284             | 142                      | 544             |
| Merger costs   | —                          | 14              | —                        | 29              |
| Unrealized losses/(gains) on commodity hedges  | (13)                       | (37)            | 29                       | (45)            |
| Impairment losses  | 48                         | 53              | 48                       | 53              |
| Nonmonetary currency devaluation   | —                          | 2               | —                        | 3               |
| Equity award compensation expense (excluding integration and restructuring expenses) | 14                         | 11              | 26                       | 20              |
| Adjusted EBITDA  | \$ 2,101                   | \$ 2,087        | \$ 3,986                 | \$ 4,038        |

The Kraft Heinz Company  
Reconciliation of Diluted EPS to Adjusted EPS  
(Unaudited)

|   | For the Three Months Ended |                 | For the Six Months Ended |                 |
|---|----------------------------|-----------------|--------------------------|-----------------|
|   | July 1,<br>2017            | July 3,<br>2016 | July 1,<br>2017          | July 3,<br>2016 |
| Diluted EPS   | \$ 0.94                    | \$ 0.63         | \$ 1.67                  | \$ 1.36         |
| Integration and restructuring expenses <sup>(a)(b)</sup>        | —                          | 0.16            | 0.08                     | 0.30            |
| Merger costs <sup>(a)(b)</sup>                                  | —                          | 0.01            | —                        | 0.02            |
| Unrealized losses/(gains) on commodity hedges <sup>(a)(b)</sup> | (0.01)                     | (0.02)          | 0.01                     | (0.03)          |
| Impairment losses <sup>(a)(b)</sup>                             | 0.03                       | 0.03            | 0.03                     | 0.03            |
| Nonmonetary currency devaluation <sup>(a)(c)</sup>              | 0.02                       | —               | 0.03                     | 0.01            |
| Preferred dividend adjustment <sup>(d)</sup>                    | —                          | 0.04            | —                        | (0.11)          |
| Adjusted EPS  | \$ 0.98                    | \$ 0.85         | \$ 1.82                  | \$ 1.58         |

<sup>(a)</sup> Income tax expense associated with these items is based on applicable jurisdictional tax rates and deductibility assessments of individual items.

<sup>(b)</sup> Refer to the reconciliation of net income/(loss) to Adjusted EBITDA for the related gross expenses.

<sup>(c)</sup> Nonmonetary currency devaluation includes the following gross expenses/(income):

- Expenses recorded in cost of products sold of \$2 million for the three months and \$3 million for the six months ended July 3, 2016 (there were no such expenses for the three and six months ended July 1, 2017); and
- Expenses recorded in other expense/(income), net, of \$25 million for the three months and \$33 million for the six months ended July 1, 2017 and \$7 million for the three and six months ended July 3, 2016.

<sup>(d)</sup> For Adjusted EPS, we present the impact of the Series A Preferred Stock dividend payments on an accrual basis. Accordingly, we included an adjustment to EPS to include \$180 million of Series A Preferred Stock dividends in the first quarter of 2016 (to reflect the March 7, 2016 Series A Preferred Stock dividend that was paid in December 2015), and to exclude \$51 million of Series A Preferred Stock dividends from the second quarter of 2016 (to reflect that it was redeemed on June 7, 2016).

## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains a number of forward-looking statements. Words such as “expect,” “improve,” “reassess,” “remain,” “will,” “plan,” and variations of such words and similar expressions are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding our plans, growth, taxes, cost savings, impacts of accounting guidance, and dividends. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, many of which are difficult to predict and beyond our control.

Important factors that affect our business and operations and that may cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, increased competition; our ability to maintain, extend and expand our reputation and brand image; our ability to differentiate our products from other brands; the consolidation of retail customers; our ability to predict, identify and interpret changes in consumer preferences and demand; our ability to drive revenue growth in our key product categories, increase our market share, or add products; an impairment of the carrying value of goodwill or other indefinite-lived intangible assets; volatility in commodity, energy and other input costs; changes in our management team or other key personnel; our inability to realize the anticipated benefits from our cost savings initiatives; changes in relationships with significant customers and suppliers; execution of our international expansion strategy; changes in laws and regulations; legal claims or other regulatory enforcement actions; product recalls or product liability claims; unanticipated business disruptions; failure to successfully integrate the business and operations of Kraft Heinz in the expected time frame; our ability to complete or realize the benefits from potential and completed acquisitions, alliances, divestitures or joint ventures; economic and political conditions in the nations in which we operate; the volatility of capital markets; increased pension, labor and people-related expenses; volatility in the market value of all or a portion of the derivatives we use; exchange rate fluctuations; risks associated with information technology and systems, including service interruptions, misappropriation of data or breaches of security; our inability to protect intellectual property rights; impacts of natural events in the locations in which we or our customers, suppliers or regulators operate; our indebtedness and ability to pay such indebtedness; tax law changes or interpretations; restatements of our consolidated financial statements and our ability to remediate material weaknesses; and other factors. For additional information on these and other factors that could affect our forward-looking statements, see “Risk Factors” below in this Quarterly Report on Form 10-Q. We disclaim and do not undertake any obligation to update or revise any forward-looking statement in this report, except as required by applicable law or regulation.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes to our market risk during the six months ended July 1, 2017. For additional information, refer to our Annual Report on Form 10-K for the year ended December 31, 2016.

### **Item 4. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report in connection with the filing of the Original Form 10-Q on August 4, 2017. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and provided reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Subsequent to the evaluation made in connection with the filing of the Original Form 10-Q, we identified an error related to our application of ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. In connection with the restatement and filing of this Form 10-Q/A, our management, with the participation of the Chief Executive Officer and Chief Financial Officer, reevaluated the effectiveness of the design and operation of our disclosure controls and procedures and concluded that our disclosure controls and procedures were not effective as of July 1, 2017 due to the material weakness in internal control over financial reporting related to the adoption and application of ASU 2016-15, as described below.

#### **Material Weakness in Internal Control Over Financial Reporting**

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. We did not maintain effective controls over the adoption of new accounting standards. Specifically, we did not maintain effective controls to evaluate and document the impact of new accounting standards, including communication with the appropriate individuals in coming to our conclusions on the application of new standards.

This control deficiency resulted in the misstatement of our operating and investing cash flows and related financial disclosures, and in the restatement of our consolidated financial statements for the quarters ended April 1, 2017 and July 1, 2017, including the comparable prior periods. Additionally, this control deficiency could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

#### **Remediation of Material Weakness**

The remediation of this material weakness will primarily include steps to improve the evaluation and documentation of new accounting standards' impacts and communication with the appropriate individuals. We plan to have these remediation steps in place during our 2017 fiscal year but will allow for testing to determine operating effectiveness before concluding on remediation.

#### **Changes in Internal Control Over Financial Reporting**

Our Chief Executive Officer and Chief Financial Officer, with other members of management, evaluated the changes in our internal control over financial reporting during the three months ended July 1, 2017. There were no changes in our internal control over financial reporting during the three months ended July 1, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

See Note 13, *Commitments, Contingencies and Debt*, to the condensed consolidated financial statements for a discussion of legal proceedings.

### **Item 1A. Risk Factors.**

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Our share repurchase activity in the three months ended July 1, 2017 was:

|   | Total Number of Shares <sup>(a)</sup> | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---------------------------------------|------------------------------|--|--|
| 4/2/2017 - 5/6/2017                     | 2,986                                 | \$ 90.92                     | 271,493  |  |
| 5/7/2017 - 6/3/2017                     | —                                     | —                            | —  |  |
| 6/4/2017 - 7/1/2017                     | 158                                   | 92.99                        | 14,692   | \$ —   |
| For the Three Months Ended July 1, 2017 | 3,144                                 |                              | 286,185  |  |

<sup>(a)</sup> Includes the following types of share repurchase activity, when they occur: (1) shares repurchased in connection with the exercise of stock options (including periodic repurchases using accumulated option exercise proceeds), (2) shares withheld for tax liabilities associated with the vesting of RSUs, and (3) shares repurchased related to employee benefit programs (including our annual bonus swap program).

## Item 6. Exhibits.

| Exhibit No. | Descriptions   |
|-------------|--|
| 2.1         | <a href="#">Amendment to the Master Ownership and License Agreement regarding Trademarks and Related Intellectual Property, by and between Intercontinental Great Brands LLC and Kraft Foods Group Brands LLC, effective as of September 28, 2016.</a>   |
| 2.2         | <a href="#">Addendum to Master Ownership and License Agreement Regarding Patents, Trade Secrets, and Related Intellectual Property, by and between Intercontinental Great Brands LLC, Mondelez UK LTD, Kraft Foods R&amp;D Inc., and Kraft Foods Group Brands LLC, dated as of May 9, 2017.</a>  |
| 31.1        | <a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.</a>  |
| 31.2        | <a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.</a>  |
| 32.1        | <a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>   |
| 32.2        | <a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>   |
| 101.1       | The following materials from The Kraft Heinz Company's Amendment No. 1 on Form 10-Q/A for the period ended July 1, 2017 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Statements of Equity, (iv) the Condensed Consolidated Balance Sheets, (v) the Condensed Consolidated Statements of Cash Flows, (vi) Notes to Condensed Consolidated Financial Statements, and (vii) document and entity information. |

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Kraft Heinz Company

Date: November 6, 2017

By: /s/ David Knopf

David Knopf

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

The Kraft Heinz Company

Date: November 6, 2017

By: /s/ Christopher R. Skinger

Christopher R. Skinger

Vice President, Global Controller

(Principal Accounting Officer)

**AMENDMENT TO THE MASTER OWNERSHIP AND LICENSE AGREEMENT REGARDING TRADEMARKS AND RELATED INTELLECTUAL PROPERTY**

This Amendment to the Master Ownership and License Agreement regarding Trademarks and Related Intellectual Property (the “**Amendment**”) is effective as of September 28, 2016 (“Amendment Effective Date”) by and between Kraft Foods Group Brands LLC, a Delaware limited liability company (“**GroceryCo IPCo**”), and Intercontinental Great Brands LLC, a Delaware limited liability company (“**SnackCo IPCo**”).

**Background**

GroceryCo IPCo and SnackCo IPCo are parties to the Master Ownership and License Agreement Regarding Trademarks and Related Intellectual Property dated September 27, 2012 (as amended) (referred to herein as the “**Agreement**”). The parties now wish to enter into a further amendment of the Agreement.

**Amendment of Agreement**

The parties agree as follows:

**1. Amendments**

1. Section 3.2(e)(i) is hereby deleted in its entirety and replaced with the new Section 3.2(e)(i) as set forth on the attached Exhibit A.
2. Section 3.2(e)(ii) is hereby deleted in its entirety and replaced with the new Section 3.2(e)(ii) as set forth on the attached Exhibit A.
3. Section 3.6(b) is hereby deleted in its entirety and replaced with the new Section 3.6(b) as set forth on the attached Exhibit A.

**2. Miscellaneous**

1. **Full Force and Effect.** Except as expressly provided in this Amendment, the Agreement remains unchanged and in full force and effect.
2. **Counterparts.** This Amendment may be executed in counterparts. Facsimile signatures are binding.

**IN WITNESS WHEREOF**, the parties hereto have executed this Amendment as of the date noted in the first Paragraph.

KRAFT FOODS GROUP BRANDS LLC

By: /s/ Sabrina Hudson

Its: Assistant Secretary

INTERCONTINENTAL GREAT BRANDS LLC

By: Intercontinental Brands LLC

Its sole member

Name: /s/ Geraldine Llewellyn

Title: Vice President

## **Exhibit A**

### **Section 3.2(e)(i)**

#### **Two-Year License of SnackCo Marks Used for Ingredients to GroceryCo IPCo**

Subject to the terms and conditions of this Agreement, SnackCo IPCo hereby grants to GroceryCo IPCo from the fourth anniversary of the Distribution Date until the sixth anniversary of the Distribution Date a non-exclusive, non-sublicensable and nontransferable royalty-free license to use and display in the NA Countries the “Oreo”, “Chips Ahoy!”, “Honey Maid”, “Ritz” (and “Ritz Bits”), “Teddy Grahams,” and “Nilla” SnackCo Marks as an ingredient indicator on retail LUNCHABLES branded meal kits in the same relative size or smaller on the principle display as used on the Distribution Date on which such SnackCo Marks appear as an ingredient indicator on such date in such jurisdictions (or, in the case of “Teddy Grahams” in the manner shown in Exhibit B of the First Amendment) including such retail LUNCHABLES branded meal kits that are sold in packaging sizes or flavors that are different from the packaging sizes or flavors used prior to the Distribution Date, and in connection with the production, manufacturing, advertising, promotion, marketing, distribution and sale of such retail LUNCHABLES branded meal kits in such jurisdictions. For the avoidance of doubt, the licenses granted under this Section 3.2(e)(i), shall be subject to Section 2.10. For the avoidance of doubt, this Section 3.2(e)(i) does not apply to the use of the OREO SnackCo Mark on GroceryCo Products in the retail categories of ready-to-eat pudding and dry packaged pudding mix or the retail OREO dessert product in the JELLO No Bake subline described in 3.2(e)(ii).

### **Section 3.2(e)(ii)**

#### **Two-Year License of SnackCo “Oreo Mark” to GroceryCo IP Co**

Subject to the terms and conditions of this Agreement, SnackCo IPCo hereby grants to GroceryCo IPCo from the fourth anniversary of the Distribution Date until the sixth anniversary of the Distribution Date a non-sublicensable, nontransferable royalty bearing license at three percent (3%) of all net revenues to use and display the OREO SnackCo Mark on GroceryCo Products in the countries listed below in (i) the retail product categories of ready-to-eat pudding and dry packaged pudding mix; and (ii) the retail OREO dessert product in the JELLO No Bake subline and in connection with the production, manufacturing, advertising, promotion, marketing, distribution and sale of such GroceryCo Products in such jurisdictions. The license granted to GroceryCo IPCo in this Section 3.2(e)(ii) shall be exclusive for the retail product categories of ready-to-eat pudding and dry packaged pudding mix. For the avoidance of doubt, the retail product categories of ready-to-eat pudding and dry packaged pudding mix exclude custard, mousse, flan, cake mix, cupcake mix, custard mix, shelf stable frosting, frosting mix, cookie mix and brownie mix, frozen and refrigerated desserts. Further, and for the avoidance of doubt, the license granted under, and the exclusivity described in, this Section 3.2(e)(ii), shall be subject to Section 2.10. GroceryCo IPCo shall pay such royalties on a quarterly basis to SnackCo IPCo as set forth on Schedule O.

The exclusive license described in this Section 3.2(e)(ii) is only for the following countries: USA, Canada, Algeria, Angola, Antigua, Bahamas, Bahrain, Barbados, Belize, Bermuda, Cambodia, Cayman Islands, Chile, Colombia, Congo, Costa Rica, Curacao-Netherland West Indies, Dominican Republic, Ethiopia, Gambia, Ghana, Grenada-Windward Islands, Guatemala, Haiti, Honduras, Hong Kong, Jamaica, Kenya, Kuwait, Lebanon, Liberia, Libya, Malaysia, Nepal, Nigeria, Oman, Panama, Philippines, Puerto Rico, Singapore, St Kitts - Leeward Islands, St Lucia - Windward Islands, St Maarten, St Vincent and the Grenadines, Suriname, Thailand, Turks & Caicos Islands and United Arab Emirates.

## **Section 3.6(b)**

### License Use of Trademarks in Recipe Titles and Recipe Collections

GroceryCo IPCo may continue to use SnackCo's OREO and RITZ Trademarks in the titles of recipes or recipe collections in the NA Countries - including recipe video titles - existing on the Distribution Date. By way of example, GroceryCo IPCo may continue to use a recipe title such as "Oreo Cheesecake". GroceryCo IPCo shall not create new recipes or recipe collections using the OREO or RITZ trademarks without first obtaining the prior written consent of SnackCo. SnackCo grants GroceryCo this license from the fourth anniversary of the Distribution Date until the sixth anniversary of the Distribution Date.

## **Addendum to Master Ownership and License Agreement**

### **Regarding Patents, Trade Secrets, and Related Intellectual Property**

This Addendum, dated May 9, 2017, is between Intercontinental Great Brands, LLC (formerly Kraft Foods Global Brands LLC), a Delaware limited liability company having an address of 100 DeForest Ave, East Hanover, NJ 07936, Mondelēz UK LTD (formerly Kraft Foods UK LTD), a England and Wales limited by shares (LTD) company having an address of Uxbridge Business Park, Sanderson Road, Uxbridge, Middlesex, UB8 1DH, United Kingdom, and Kraft Foods R&D Inc., a Delaware corporation having an address of Three Parkway North, Deerfield, IL 60015 (collectively herein “IGB”) and Kraft Foods Group Brands LLC, a Delaware limited liability company with an address of 200 East Randolph Street, Suite 7600, Chicago, IL, 60601 (hereinafter “Group Brands”), parties to the Master Ownership and License Agreement Regarding Patents, Trade Secrets, and Related Intellectual Property (hereafter “the Agreement”).

WHEREAS Group Brands is currently asserting patents related to LCRB technology, including but not limited to U.S. Patent No. 8,293,299; U.S. Patent No. 8,511,472; and U.S. Patent No. 8,603,557 (collectively “LCRB Patents”), in litigation against TC Heartland and Heartland Foods Products Group (“LCRB Litigation”);

WHEREAS IGB is currently asserting patents related to Snack N Seal technology, including but not limited to U.S. Patent No. 6,918,532 B2 (collectively, “Snack N Seal Patents”), in litigation against Kellogg North America Company, Kellogg USA, Inc., Keebler Company, Keebler Foods Company, and Kellogg Sales Company (“Snack N Seal Litigation”);

WHEREAS Group Brands and IGB recognize that settlement of the Snack N Seal Litigation or the LCRB Litigation may involve granting licenses to the underlying patents, and corresponding foreign patents, which would otherwise be restricted under the Agreement;

WHEREAS the Parties have agreed to amend the Agreement to provide for such licenses should they become part of a settlement of the Snack N Seal Litigation and/or the LCRB Litigation;

#### **The parties hereby agree as follows:**

With respect to the Snack N Seal Patents, the provisions of Article VIII of the Agreement, entitled Enforcement and Litigation of Licensed Intellectual Property, do not apply as to the claims or litigation against Kellogg North America Company, Kellogg USA, Inc., Keebler Company, Keebler Foods Company, and Kellogg Sales Company (and any other Kellogg or Keebler Company).

Additionally, with respect to the Snack N Seal Patents, the licensing restrictions of Section 3.5(b) of the Agreement do not apply as to the claims, litigation, or settlement between IGB and Kellogg North America Company, Kellogg USA, Inc., Keebler Company, Keebler Foods Company, and Kellogg Sales Company (and any other Kellogg or Keebler Company). Group Brands waives and disclaims any and all rights related to the enforcement and litigation of the Snack N Seal Patents, including any and all rights related to consent, initiation, control, management, costs, recoveries, and settlement or litigation against Kellogg North America Company, Kellogg USA, Inc., Keebler Company, Keebler Foods Company, and Kellogg Sales Company.

With respect to LCRB Patents, the provisions of Article VIII of the Agreement, entitled Enforcement and Litigation of Licensed Intellectual Property, do not apply as to the claims or litigation against TC Heartland and Heartland Foods Products Group (and any other Heartland Company).

Additionally, with respect to LCRB Patents, the licensing restrictions of Section 5.1(f) of the Agreement do not apply as to the claims, litigation, or settlement between Group Brands and TC Heartland and Heartland Foods Products Group (and any other Heartland Company). IGB waives and disclaims any and all rights related to the enforcement, litigation, and licensing of the LCRB Patents, including any and all rights related to consent, initiation, control, management, costs, recoveries, and settlement or litigation against TC Heartland and Heartland Foods Products Group.

**IN WITNESS** whereof the Parties have executed this Addendum. The parties' authorized representatives execute this document by signing below, either physically or electronically (if legally valid), and may sign separate copies.

**Intercontinental Great Brands LLC**

/s/ Matthew J. Golden

Signature

Matthew J. Golden

Name

Assistant Secretary,  
Intercontinental Brands, LLC

Title

5/10/2017

Date

Signed on behalf of  
Intercontinental Great Brands LLC  
By: Intercontinental Brands, LLC  
Its: Sole Member

**Mondelēz UK LTD**

In the presence of

/s/ Michael Taylor

Signature

/s/ T. Bainbridge

Signature

Michael Taylor

Name

Taz Bainbridge

Name

UK Managing Director

Title

Personal Asst.

Title

17 May 2017

Date

**Kraft Foods R&D Inc.**

/s/ Matthew J. Golden

Signature

Matthew J. Golden

Name

Asst. Secretary

Title

5/10/2017

Date

**Kraft Foods Group Brands LLC**

/s/ Daniel T. Conrad

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Signature

Daniel T. Conrad

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Name

Vice President, Deputy GC

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Title

May 9, 2017

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Date

I, Bernardo Hees, certify that:

1. I have reviewed this Amendment No. 1 on Form 10-Q/A for the period ended July 1, 2017 of The Kraft Heinz Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Bernardo Hees

Bernardo Hees

Chief Executive Officer

Date: November 6, 2017

I, David Knopf, certify that:

1. I have reviewed this Amendment No. 1 on Form 10-Q/A for the period ended July 1, 2017 of The Kraft Heinz Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David Knopf

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David Knopf

Executive Vice President and Chief Financial Officer

Date: November 6, 2017

**18 U.S.C. SECTION 1350 CERTIFICATION**

I, Bernardo Hees, Chief Executive Officer of The Kraft Heinz Company (the "Company"), hereby certify that, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, to my knowledge:

1. The Company's Amendment No. 1 on Form 10-Q/A for the period ended July 1, 2017 (the "Form 10-Q/A") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form 10-Q/A fairly presents, in all material respects, the financial condition and results of operations of the Company.

By:           /s/ Bernardo Hees          

Name: Bernardo Hees

Title: Chief Executive Officer

Date: November 6, 2017

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Form 10-Q/A or as a separate disclosure document.

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to The Kraft Heinz Company and will be retained by The Kraft Heinz Company and furnished to the Securities and Exchange Commission or its staff upon request.*

**18 U.S.C. SECTION 1350 CERTIFICATION**

I, David Knopf, Executive Vice President and Chief Financial Officer of The Kraft Heinz Company (the "Company"), hereby certify that, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, to my knowledge:

1. The Company's Amendment No. 1 on Form 10-Q/A for the period ended July 1, 2017 (the "Form 10-Q/A") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form 10-Q/A fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David Knopf

Name: David Knopf

Title: Executive Vice President and Chief Financial Officer

Date: November 6, 2017

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Form 10-Q/A or as a separate disclosure document.

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to The Kraft Heinz Company and will be retained by The Kraft Heinz Company and furnished to the Securities and Exchange Commission or its staff upon request.*