Mondelez International, Inc.
Form 10-Q
November 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission file number 1-16483

Mondelēz International, Inc.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: **(847) 943-4000**

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

At October 31, 2012, there were 1,777,088,152 shares of the registrant s Class A common stock outstanding.

Mondelēz International, Inc.

Table of Contents

On October 1, 2012, Kraft Foods Inc. changed its name to Mondelēz International, Inc. In this report, for all periods presented, we, us, our, and Mondelēz International refer to Mondelēz International, Inc. and subsidiaries (formerly Kraft Foods Inc. and subsidiaries). References to Common Stock refer to our Class A common stock.

Our condensed consolidated financial results as of September 30, 2012 and for all prior periods presented include the results of Kraft Foods Group, Inc., our previously owned North American grocery business. On October 1, 2012, we completed the spin-off of Kraft Foods Group, Inc. The spin-off and divestiture of Kraft Foods Group, Inc. have not yet been reflected in our historical results and will be presented as a discontinued operation beginning in our fourth quarter which ends on December 31, 2012. See Notes 1 and 2 for additional information on our reporting Basis of Presentation and the Spin-Off Transaction.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Mondelēz International, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions of U.S. dollars, except per share data)

(Unaudited)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Net revenues	$ 12,909	$ 13,226	$ 39,288	$ 39,677
Cost of sales	8,191	8,611	25,033	25,555
Gross profit	4,718	4,615	14,255	14,122
Selling, general and administrative expenses	2,955	2,866	8,631	8,807
Asset impairment and exit costs	57	(7)	239	(7)
Amortization of intangibles	54	58	163	172
Operating income	1,652	1,698	5,222	5,150
Interest and other expense, net	864	425	1,846	1,312
Earnings before income taxes	788	1,273	3,376	3,838
Provision for income taxes	129	346	864	1,133
Net earnings	659	927	2,512	2,705
Noncontrolling interest	7	5	18	8
Net earnings attributable to Mondelēz International	$ 652	$ 922	$ 2,494	$ 2,697
Per share data:				
Basic earnings per share attributable to Mondelēz International	$ 0.37	$ 0.52	$ 1.40	$ 1.53
Diluted earnings per share attributable to Mondelēz International	$ 0.36	$ 0.52	$ 1.40	$ 1.52
Dividends declared	$ 0.29	$ 0.29	$ 0.87	$ 0.87

See accompanying notes to the condensed consolidated financial statements.

Mondelēz International, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Earnings

(in millions of U.S. dollars)

(Unaudited)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Net earnings	$ 659	$ 927	$ 2,512	$ 2,705
Other comprehensive earnings / (losses):				
Currency translation adjustment:				
Translation adjustment	726	(2,446)	528	(722)
Tax (expense) / benefit	17	(126)	26	
Pension and other benefits:				
Net actuarial gain / (loss) arising during period	(1,583)	(6)	(1,474)	62
Reclassification adjustment for losses / (gains) included in net earnings due to:				
Amortization of experience losses and prior service costs	128	92	377	272
Settlement losses	53	31	113	67
Tax (expense) / benefit	519	(53)	379	(152)
Derivatives accounted for as hedges:				
Net derivative losses	(10)	(590)	(366)	(742)
Reclassification adjustment for losses / (gains) included in net earnings	446	(9)	589	(50)
Tax (expense) / benefit	(164)	233	(93)	291
Total other comprehensive earnings / (losses)	132	(2,874)	79	(974)
Comprehensive earnings / (losses)	791	(1,947)	2,591	1,731
less: Comprehensive earnings / (losses) attributable to noncontrolling interests	14	(10)	19	8
Comprehensive earnings / (losses) attributable to Mondelēz International	$ 777	$ (1,937)	$ 2,572	$ 1,723

See accompanying notes to the condensed consolidated financial statements.

Mondelēz International, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions of U.S. dollars, except share data)

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 3,873	$ 1,974
Receivables (net of allowances of $136 in 2012 and $143 in 2011)	7,110	6,361
Inventories, net	6,429	5,706
Deferred income taxes	1,074	912
Other current assets	1,031	1,249
Total current assets	19,517	16,202
Property, plant and equipment, net	14,049	13,813
Goodwill	37,531	37,297
Intangible assets, net	25,196	25,186
Prepaid pension assets	33	31
Other assets	1,453	1,308
TOTAL ASSETS	$ 97,779	$ 93,837
LIABILITIES		
Short-term borrowings	$ 263	$ 182
Current portion of long-term debt	1,920	3,654
Accounts payable	5,499	5,525
Accrued marketing	2,716	2,863
Accrued employment costs	1,212	1,365
Other current liabilities	4,235	4,856
Total current liabilities	15,845	18,445
Long-term debt	27,323	23,095
Deferred income taxes	6,749	6,738
Accrued pension costs	4,107	3,597
Accrued postretirement health care costs	3,751	3,238
Other liabilities	3,326	3,396
TOTAL LIABILITIES	61,101	58,509
Commitments and Contingencies (Note 12)		
EQUITY		
Common Stock, no par value (1,996,537,778 shares issued in 2012 and 2011)		
Additional paid-in capital	31,381	31,318
Retained earnings	18,921	18,012
Accumulated other comprehensive losses	(6,559)	(6,637)
Treasury stock, at cost	(7,192)	(7,476)
Total Mondelēz International Shareholders Equity	36,551	35,217

Noncontrolling interest		127		111
TOTAL EQUITY		36,678		35,328
TOTAL LIABILITIES AND EQUITY	$	97,779	$	93,837

See accompanying notes to the condensed consolidated financial statements.

Mondelēz International, Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(in millions of U.S. dollars, except per share data)

(Unaudited)

	Mondelēz International Shareholders Equity						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings / (Losses)	Treasury Stock	Noncontrolling Interest	Total Equity
Balances at January 1, 2011	$	$ 31,231	$ 16,619	$ (3,890)	$ (8,126)	$ 108	$ 35,942
Comprehensive earnings / (losses):							
Net earnings			3,527			20	3,547
Other comprehensive losses, net of income taxes				(2,747)		(10)	(2,757)
Exercise of stock options and issuance of other stock awards		100	(86)		650		664
Cash dividends declared ($1.16 per share)			(2,048)				(2,048)
Dividends paid on noncontrolling interest and other activities		(13)				(7)	(20)
Balances at December 31, 2011	$	$ 31,318	$ 18,012	$ (6,637)	$ (7,476)	$ 111	$ 35,328
Comprehensive earnings / (losses):							
Net earnings			2,494			18	2,512
Other comprehensive earnings, net of income taxes				78		1	79
Exercise of stock options and issuance of other stock awards		63	(40)		284		307
Cash dividends declared ($0.87 per share)			(1,545)				(1,545)
Dividends paid on noncontrolling interest and other activities						(3)	(3)
Balances at September 30, 2012	$	$ 31,381	$ 18,921	$ (6,559)	$ (7,192)	$ 127	$ 36,678

See accompanying notes to the condensed consolidated financial statements.

Mondelēz International, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in millions of U.S. dollars)

(Unaudited)

	For the Nine Months Ended September 30, 2012	2011
CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 2,512	$ 2,705
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	1,065	1,117
Stock-based compensation expense	135	137
Deferred income tax provision / (benefit)	461	(429)
Unrealized loss on discontinued cash flow hedges	436	
Asset impairments	94	
Other non-cash expense, net	98	6
Change in assets and liabilities:		
Receivables, net	(699)	(437)
Inventories, net	(712)	(1,188)
Accounts payable	(104)	(61)
Other current assets	149	(278)
Other current liabilities	(1,284)	489
Change in pension and postretirement assets and liabilities, net	24	(396)
Net cash provided by operating activities	2,175	1,665
CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(1,229)	(1,281)
Proceeds from sale of property, plant and equipment and other	100	37
Net cash used in investing activities	(1,129)	(1,244)
CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES		
Net issuance of short-term borrowings	81	145
Long-term debt proceeds	6,767	35
Long-term debt repaid	(4,336)	(10)
Dividends paid	(1,542)	(1,535)
Other	(142)	522
Net cash provided by / (used in) financing activities	828	(843)
Effect of exchange rate changes on cash and cash equivalents	25	(83)
Cash and cash equivalents:		
Increase / (decrease)	1,899	(505)
Balance at beginning of period	1,974	2,481
Balance at end of period	$ 3,873	$ 1,976

See accompanying notes to the condensed consolidated financial statements.

Mondelēz International, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Basis of Presentation

On October 1, 2012, Kraft Foods Inc. changed its name to Mondelēz International, Inc. The condensed consolidated financial statements include Mondelēz International as well as our wholly owned and majority-owned subsidiaries. Our consolidated financial results as of September 30, 2012, and for all prior periods presented, include the results of Kraft Foods Group, Inc., our North American grocery business. The spin-off and divestiture of Kraft Foods Group, Inc. on October 1, 2012 have not yet been reflected in our historical results. See Note 2, *Spin-Off Transaction,* for additional information. Beginning in the fourth quarter which ends on December 31, 2012, we will present the historical results of Kraft Foods Group, Inc. as a discontinued operation and remove it from our results from continuing operations for all presented periods.

Our interim condensed consolidated financial statements are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been omitted. It is management s opinion that these financial statements include all normal and recurring adjustments necessary for a fair presentation of our financial position and operating results. Net revenues and net earnings for any interim period are not necessarily indicative of future or annual results.

The condensed consolidated balance sheet data as of December 31, 2011 were derived from audited financial statements, but do not include all disclosures required by U.S. GAAP. You should read these statements in conjunction with our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2011.

The majority of our operating subsidiaries report results as of the last Saturday of the period. A portion of our international operating subsidiaries report results as of the last calendar day of the period.

In the second quarter of 2011, we changed the consolidation date for certain operations of our Europe segment and in the Latin America, Central and Eastern Europe (CEE) and Middle East and Africa (MEA) regions within our Developing Markets segment. Previously, these operations primarily reported results two weeks prior to the end of the period. Subsequent to the 2011 changes, our Europe segment reports results as of the last Saturday of each period. Certain operations within our Developing Markets segment now report results as of the last calendar day of the period or the last Saturday of the period. These changes resulted in a favorable impact of approximately $360 million on net revenues and approximately $50 million on operating income in the prior-year second quarter as well as in the nine months ended September 30, 2011.

New Accounting Pronouncements:

In July 2012, the Financial Accounting Standards Board (FASB) issued an accounting standard update to simplify how entities test indefinite-lived intangible assets for impairment. An entity now has the option to first assess qualitative factors to determine whether it is more likely than not that the asset may be impaired. If, after assessing the totality of events and circumstances, impairment is determined to be not likely, then performing the quantitative two-step impairment test would not be required. The update is effective for annual indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We plan to adopt the accounting standard update in the quarter ended December 31, 2012 ahead of our annual intangible asset impairment testing. The new guidance will not have an impact on our financial results but is expected to simplify the indefinite-lived intangible asset testing we do on an annual basis.

Subsequent Events:

We evaluated subsequent events and have reflected accounting and disclosure requirements related to material subsequent events in our financial statements and related notes.

Note 2. Spin-Off Transaction

On October 1, 2012 (the Distribution Date), we completed the spin-off of our North American grocery business, Kraft Foods Group, Inc. (Kraft Foods Group or the North American Grocery Business), to our shareholders (the Spin-Off). We continue to hold our global snacks business (the Global Snacks Business). On October 1, 2012, each of our shareholders of record as of the close of business on September 19, 2012 (the Record Date), received one share of Kraft Foods Group common stock for every three shares of our Common Stock held as of the Record Date. The distribution was structured to be tax free to our U.S. shareholders for U.S. federal income tax purposes.

Kraft Foods Group is now an independent public company trading on The NASDAQ Global Select Market under the symbol KRFT. After the Spin-Off, we do not beneficially own any shares of Kraft Foods Group common stock and beginning October 1, 2012, we will no longer consolidate Kraft Foods Group within our financial results or reflect the financial results of Kraft Foods Group within our continuing results of operations.

Our historical results include one-time Spin-Off transaction, transition and financing and related costs (Spin-Off Costs) we have incurred to date. We recorded Spin-Off Costs of $683 million in the three months and $984 million in the nine months ended September 30, 2012. We also recorded $46 million of Spin-Off Costs in the fourth quarter of 2011. We expect to reflect all one-time Spin-Off Costs within our reported results. During 2012, we incurred the Spin-Off costs within pre-tax earnings as follows:

	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2012
	(in millions)	
Selling, general and administrative expenses	$ 226	$ 365
Interest and other expense, net	457	619
Spin-Off Costs	$ 683	$ 984

On October 1, 2012, in connection with the completion of the Spin-Off, we also changed our name from Kraft Foods Inc. to Mondelēz International, Inc. On October 2, 2012, our shares began to trade on The NASDAQ Global Select Market, under the symbol MDLZ. Mondelēz International is now a standalone global snacks company and a world leader in chocolate, biscuits, gum, candy, coffee and powdered beverages.

Note 3. Inventories

Inventories at September 30, 2012 and December 31, 2011 were:

	September 30, 2012	December 31, 2011
	(in millions)	
Raw materials	$ 2,024	$ 1,800
Finished product	4,405	3,906
Inventories, net	$ 6,429	$ 5,706

Note 4. Property, Plant and Equipment

Property, plant and equipment at September 30, 2012 and December 31, 2011 were:

	September 30, 2012	December 31, 2011
	(in millions)	
Land and land improvements	$ 764	$ 768
Buildings and building improvements	5,118	4,997
Machinery and equipment	17,641	16,934
Construction in progress	1,365	1,233
	24,888	23,932
Accumulated depreciation	(10,839)	(10,119)
Property, plant and equipment, net	$ 14,049	$ 13,813

Note 5. Goodwill and Intangible Assets

Goodwill by reportable segment at September 30, 2012 and December 31, 2011 was:

	September 30, 2012	December 31, 2011
	(in millions)	
North America:		
U.S. Beverages	$ 1,290	$ 1,290
U.S. Cheese	3,000	3,000
U.S. Convenient Meals	985	985
U.S. Grocery	3,046	3,046
U.S. Snacks	9,125	9,125
Canada & N.A. Foodservice	3,488	3,385
Europe	9,085	9,003
Developing Markets	7,512	7,463
Goodwill	$ 37,531	$ 37,297

Intangible assets at September 30, 2012 and December 31, 2011 were:

	September 30, 2012	December 31, 2011
	(in millions)	
Non-amortizable intangible assets	$ 23,022	$ 22,859
Amortizable intangible assets	2,863	2,853
	25,885	25,712
Accumulated amortization	(689)	(526)

Intangible assets, net	$	25,196	$	25,186

Non-amortizable intangible assets consist substantially of brand names purchased through our acquisitions of Nabisco Holdings Corp., the Spanish and Portuguese operations of United Biscuits, the global *LU* biscuit business of Groupe Danone S.A. and Cadbury Limited. Amortizable intangible assets consist primarily of trademark licenses, customer-related intangibles, process technology and non-compete agreements. At September 30, 2012, the weighted-average life of our amortizable intangible assets was 13.2 years.

Amortization expense was $54 million for the three months and $163 million for the nine months ended September 30, 2012 and $58 million for the three months and $172 million for the nine months ended September 30, 2011. We currently estimate annual amortization expense for each of the next five years to be approximately $216 million.

The movements in goodwill and intangible assets were:

	Goodwill	Intangible Assets, at Cost
	(in millions)	
Balance at January 1, 2012	$ 37,297	$ 25,712
Changes due to:		
Foreign currency	234	187
Asset impairments		(20)
Other		6
Balance at September 30, 2012	$ 37,531	$ 25,885

During the three months ended March 31, 2012, we recorded an impairment charge of $20 million within asset impairment and exit costs for the impairment of an intangible asset in Japan.

Note 6. 2012-2014 Restructuring Program

On March 14, 2012, our Board of Directors approved $1.1 billion of restructuring and related implementation costs (2012-2014 Restructuring Program) reflecting primarily severance, asset disposals and other manufacturing-related one-time costs. The primary objective of the restructuring and implementation activities is to ensure that both Kraft Foods Group and Mondelēz International were each set up to operate efficiently and execute their business strategies upon separation of the companies and in the future. On October 23, 2012, our Board of Directors approved $400 million of additional restructuring and related implementation programs within Mondelēz International s U.S. and European operations, totaling $1.5 billion of total expected 2012-2014 Restructuring Program costs.

Of the $1.5 billion of 2012-2014 Restructuring Program costs, Kraft Foods Group has or expects to incur approximately $575 million of restructuring and implementation costs. As such, these costs will not be included within our results of continuing operations in future periods. We will retain approximately $925 million of the 2012-2014 Restructuring Program.

Restructuring Costs:

On a consolidated historical basis, we recorded restructuring charges of $57 million in the three months and $218 million in the nine months ended September 30, 2012 within asset impairment and exit costs. We spent $19 million in the three months and $61 million in the nine months ended September 30, 2012 in cash severance and related costs. We also recognized non-cash pension plan settlement losses (see Note 10, *Pension, Postretirement and Postemployment Benefit Plans*) and non-cash asset write-downs (including accelerated depreciation and asset impairments) totaling $38 million in the three months and $112 million in the nine months ended September 30, 2012. At September 30, 2012, a $45 million restructuring liability was recorded within other current liabilities.

	Severance and related costs	Asset Write-downs	Total
		(in millions)	
Liability balance, January 1, 2012	$	$	$
Charges	143	75	218
Cash spent	(61)		(61)
Non-cash settlements	(37)	(75)	(112)
Liability balance, September 30, 2012	$ 45	$	$ 45

Implementation Costs:

Implementation costs are directly attributable to restructuring activities; however, they do not qualify for special accounting treatment as exit or disposal activities. We believe the disclosure of implementation costs provides readers of our financial statements greater transparency to the total costs of our 2012-2014 Restructuring Program. On a consolidated historical basis, we recorded implementation costs of $12 million in the three months and $20 million in the nine months ended September 30, 2012 within cost of sales and selling, general and administrative expense across our North American segments. These costs primarily include reorganization costs related to our sales function and the optimization of information systems infrastructure.

Restructuring and Implementation Costs by Segment:

During the three and nine months ended September 30, 2012, we recorded restructuring and implementation costs within our consolidated segment operating income as follows:

	For the Three Months Ended September 30, 2012		
	Restructuring Costs	Implementation Costs (in millions)	Total
North America:			
U.S. Beverages	$ 19	$ 5	$ 24
U.S. Cheese	10	1	11
U.S. Convenient Meals	5	1	6
U.S. Grocery	6	1	7
U.S. Snacks	14	3	17
Canada & N.A. Foodservice	1	1	2
Europe			
Developing Markets	2		2
Total	$ 57	$ 12	$ 69

	For the Nine Months Ended September 30, 2012		
	Restructuring Costs	Implementation Costs (in millions)	Total
North America:			
U.S. Beverages	$ 35	$ 6	$ 41
U.S. Cheese	54	2	56
U.S. Convenient Meals	16	2	18
U.S. Grocery	22	2	24
U.S. Snacks	57	6	63
Canada & N.A. Foodservice	27	2	29
Europe			
Developing Markets	7		7
Total	$ 218	$ 20	$ 238

Note 7. Integration Program

As a result of our combination with Cadbury Limited (formerly, Cadbury plc or Cadbury) in 2010, we launched an integration program to realize expected annual cost savings of approximately $800 million by the end of 2013 and revenue synergies from investments in distribution, marketing and product development. In order to achieve these cost savings and synergies and combine and integrate the two businesses, we expect to incur total integration charges of approximately $1.5 billion through the end of 2013 (the Integration Program).

Integration Program costs include the costs associated with combining the Cadbury operations within our Global Snacks Business and are separate from the costs related to the acquisition. Since the inception of the Integration Program, we have incurred approximately $1.3 billion of the estimated $1.5 billion total integration charges.

Changes in the Integration Program liability during the nine months ended September 30, 2012 were (in millions):

		2012
Balance at January 1, 2012	$	346
Charges		64
Cash spent		(184)
Currency / other		(4)
Balance at September 30, 2012	$	222

We recorded Integration Program charges of $29 million during the three months and $107 million during the nine months ended September 30, 2012. During the three months ended September 30, 2012, we also reversed $43 million of Integration Program charges previously accrued in the fourth quarter of 2010 primarily related to planned and announced position eliminations that did not occur within our Europe segment. The reversal was based on final negotiations with local workers councils, the majority of which were concluded in April 2012. In 2011, we recorded Integration Program charges of $112 million for the three months and $352 million for the nine months ended September 30, 2011. We recorded these charges in operations, as a part of selling, general and administrative expenses primarily within our Europe and Developing Markets segments, as well as within general corporate expenses.

Note 8. Debt

Borrowing Arrangements:

On March 8, 2012, in connection with the Spin-Off, Kraft Foods Group entered into a $4.0 billion 364-day senior unsecured revolving credit facility that was set to expire on March 7, 2013. On July 18, 2012, we reduced the unused commitment under the facility to $1.4 billion of borrowing capacity. On September 24, 2012, after substantially completing the Kraft Foods Group Spin-Off financing plans, Kraft Foods Group paid the accrued facility fees and terminated the revolving credit agreement.

On May 18, 2012, in connection with the Spin-Off, Kraft Foods Group entered into a $3.0 billion five-year senior unsecured revolving credit facility that expires on May 17, 2017. Borrowings under the facility bear interest at a variable rate based on the London Inter-Bank Offered Rate (LIBOR) or a defined base rate, at the election of Kraft Foods Group plus an applicable margin based on certain debt credit ratings before or after the Spin-Off. Prior to the Spin-Off, we guaranteed any borrowings against this facility. As of September 30, 2012 and through the Spin-Off date, no amounts were drawn on this credit facility and as of the Spin-Off date, we no longer are a guarantor on the credit facility.

Long-Term Debt:

On January 10, 2012, we issued $800 million of floating rate notes which bear interest equal to the three-month LIBOR plus 0.875%. We received net proceeds of $798.8 million from the issuance. The notes were set to mature on July 10, 2013 or subject to a mandatory redemption tied to the public announcement of the Record Date for the Spin-Off. After announcing the Record Date, on September 24, 2012, the notes were redeemed at a redemption price equal to 100% of the aggregate principal amount of the notes, or $800 million, plus accrued and unpaid interest of $2 million.

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On June 1, 2012, $900 million of our 6.25% notes matured and were repaid primarily from commercial paper borrowings which were subsequently repaid from proceeds received from the Kraft Foods Group $6.0 billion notes issued on June 4, 2012.

On June 4, 2012, Kraft Foods Group issued $6.0 billion of senior unsecured notes at a weighted-average effective rate of 3.938%. The net proceeds of $5.9 billion were used to pay $3.6 billion of outstanding commercial paper borrowings and we expect to use the remaining cash proceeds to pay down additional debt over time. Kraft Foods Group also recorded approximately $260 million of deferred financing costs which will be recognized in interest expense over the life of the notes. The general terms of the $6.0 billion notes are:

- $1 billion notes due June 4, 2015 at a fixed, annual interest rate of 1.625%. Interest is payable semiannually beginning December 4, 2012.
- $1 billion notes due June 5, 2017 at a fixed, annual interest rate of 2.250%. Interest is payable semiannually beginning December 5, 2012.
- $2 billion notes due June 6, 2022 at a fixed, annual interest rate of 3.500%. Interest is payable semiannually beginning December 6, 2012.
- $2 billion notes due June 4, 2042 at a fixed, annual interest rate of 5.000%. Interest is payable semiannually beginning December 4, 2012.

On July 18, 2012, we completed a debt exchange in which $3.6 billion of our debt was exchanged for debt of Kraft Foods Group in connection with our Spin-Off capitalization plan. No cash was generated from the exchange. The general terms of the $3.6 billion notes issued by Kraft Foods Group are:

- $1,035 million notes due August 23, 2018 at a fixed, annual interest rate of 6.125%. Interest is payable semiannually beginning August 23, 2012. (This debt was issued in exchange for $596 million of our 6.125% Notes due in February 2018 and $439 million of our 6.125% Notes due in August 2018).
- $900 million notes due February 10, 2020 at a fixed, annual interest rate of 5.375%. Interest is payable semiannually beginning August 10, 2012. (This debt was issued in exchange for an approximately equal principal amount of our 5.375% Notes due in February 2020).
- $878 million notes due January 26, 2039 at a fixed, annual interest rate of 6.875%. Interest is payable semiannually beginning July 26, 2012. (This debt was issued in exchange for approximately $233 million of our 6.875% Notes due in January 2039, approximately $290 million of our 6.875% Notes due in February 2038, approximately $185 million of our 7.000% Notes due in August 2037 and approximately $170 million of our 6.500% Notes due in November 2031).
- $787 million notes due February 9, 2040 at a fixed, annual interest rate of 6.500%. Interest is payable semiannually beginning August 9, 2012. (This debt was issued in exchange for an approximately equal principal amount of our 6.500% Notes due in 2040).

On August 30, 2012, we extended the term of a $150 million Canadian dollar loan (or $152 million in U.S. dollars as of September 30, 2012) to October 2, 2012 and paid off the loan on October 2, 2012.

On October 1, 2012, in connection with finalizing the Spin-Off and related debt capitalization plan for Kraft Foods Group, approximately $400 million of our 7.55% senior unsecured notes was retained by Kraft Foods Group. No cash was generated from the transaction which will also be reflected in our consolidated financial statements in the fourth quarter ended December 31, 2012.

Fair Value of Our Debt:

The fair value of our short-term borrowings at September 30, 2012 and December 31, 2011 reflects current market interest rates and approximates the amounts we have recorded on our condensed consolidated balance sheet. The fair value of our long-term debt was determined using quoted prices in active markets for the publicly traded debt obligations (Level 1 valuation data). At September 30, 2012, the aggregate fair value of our total debt was $34,789 million and its carrying value was $29,506 million. At December 31, 2011, the aggregate fair value of our total debt was $31,113 million and its carrying value was $26,931 million.

Note 9. Stock Plans

Restricted and Deferred Stock:

In January 2012, in connection with our long-term incentive plan, we granted 1.3 million shares of restricted and deferred stock at a market value of $37.63 per share. In February 2012, as part of our annual equity program, we issued 2.2 million shares of restricted and deferred stock to eligible employees at a market value of $38.00 per share. During the nine months ended September 30, 2012, we issued 0.8 million of additional restricted and deferred shares with a weighted-average market value of $31.66 per share primarily in connection with our 2009 long-term incentive plan performance based awards which were issued and vested during the first quarter of 2012. In aggregate, we issued 4.3 million restricted and deferred shares during the nine months ended September 30, 2012 with a weighted-average market value of $36.69 per share. During the nine months ended September 30, 2012, 4.9 million shares of restricted and deferred stock vested at a market value of $186 million.

Stock Options:

In February 2012, as part of our annual equity program, we granted 12.8 million stock options to eligible employees at an exercise price of $38.00 per share. During the nine months ended September 30, 2012, we issued 0.7 million of additional stock options with a weighted-average exercise price of $38.13 per share. In aggregate, we granted 13.5 million stock options during the nine months ended September 30, 2012 at a weighted-average exercise price of $38.00 per share at the time of grant. During the nine months ended September 30, 2012, there were 7.2 million stock options exercised with a total intrinsic value of $84 million.

In connection with the Spin-Off and separation of Kraft Foods Group, restricted and deferred stock awards (excluding long-term incentive plan awards) and employee stock option awards were modified and converted into new equity awards using a formula designed to preserve the fair value of the awards immediately prior to the Spin-Off. On October 1, 2012, holders of restricted and deferred stock awards received one share of Kraft Foods Group restricted or deferred shares for every three restricted or deferred shares they held prior to the Record Date. Holders of stock options awards received Mondelēz International stock options to purchase the same number of shares of Mondelēz International common stock at a reduced exercise price and one new Kraft Foods Group stock option for every three Mondelēz International stock options to preserve the fair value of the overall awards granted. Long-term incentive plan awards held by Kraft Foods Group employees were converted to Kraft Foods Group awards. Long-term incentive plan awards held by Mondelēz International employees will remain Mondelēz International awards. The underlying performance conditions for the Mondelēz International long-term incentive plan awards were modified and are consistent with our original performance targets adjusted to reflect our standalone business.

Note 10. Pension, Postretirement and Postemployment Benefit Plans

Pension Plans

Components of Net Periodic Pension Cost:

Net periodic pension cost for the three and nine months ended September 30, 2012 and 2011 consisted of:

	U.S. Plans For the Three Months Ended September 30,		Non-U.S. Plans For the Three Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)			
Service cost	$ 42	$ 36	$ 41	$ 39
Interest cost	85	91	108	116
Expected return on plan assets	(113)	(123)	(126)	(135)
Amortization:				
Net loss from experience differences	83	57	31	26
Prior service cost	1	2	1	
Settlement losses(1)	53	31		7
Net periodic pension cost	$ 151	$ 94	$ 55	$ 53

	U.S. Plans For the Nine Months Ended September 30, 2012	2011	Non-U.S. Plans For the Nine Months Ended September 30, 2012	2011
	(in millions)			
Service cost	$ 123	$ 109	$ 131	$ 129
Interest cost	261	273	327	347
Expected return on plan assets	(341)	(371)	(383)	(405)
Amortization:				
Net loss from experience differences	237	169	99	76
Prior service cost	5	5	2	1
Settlement losses[(1)]	113	67		7
Net periodic pension cost	$ 398	$ 252	$ 176	$ 155

(1) Includes approximately $19 million for the three months and $38 million for the nine months ended September 30, 2012 of settlement losses related to employees who elected to take lump-sum payments in connection with our 2012-2014 Restructuring Program. These costs are reflected within asset impairments and exit costs on the condensed consolidated statement of earnings and within the charges related to severance and related costs in Note 6, *2012-2014 Restructuring Program*.

Employer Contributions:

We make contributions to our U.S. and non-U.S. pension plans primarily to the extent that they are tax deductible and do not generate an excise tax liability. During the three months ended September 30, 2012, we contributed $325 million to our U.S. plans, including $315 million of voluntary contributions made ahead of the Spin-Off, and $65 million to our non-U.S. Plans. During the first nine months of 2012, we contributed $347 million to our U.S. plans and $247 million to our non-U.S. plans. Based on current tax law, we plan to make further contributions of approximately $8 million to our U.S. plans and approximately $178 million to our non-U.S. plans during the remainder of 2012. However, our actual contributions may differ due to many factors, including changes in tax and other benefit laws, or significant differences between expected and actual pension asset performance or interest rates.

Postretirement Benefit Plans

Net postretirement health care costs during the three and nine months ended September 30, 2012 and 2011 consisted of:

	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
	(in millions)		(in millions)	
Service cost	$ 11	$ 10	$ 30	$ 28
Interest cost	38	42	117	125
Amortization:				
Net loss from experience differences	22	15	62	46
Prior service credit	(10)	(8)	(28)	(24)
Other[(1)]	23		23	
Net postretirement health care costs	$ 84	$ 59	$ 204	$ 175

(1) In August 2012, we recorded a $23 million unfunded U.S. postretirement plan obligation related to long-term disability benefits.

Postemployment Benefit Plans

Net postemployment costs during the three and nine months ended September 30, 2012 and 2011 consisted of:

	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
	(in millions)		(in millions)	
Service cost	$ 3	$ 2	$ 10	$ 7
Interest cost	2	2	6	7
Amortization of net gains				(1)
Other	(3)		(3)	
Net postemployment costs	$ 2	$ 4	$ 13	$ 13

<u>Note 11. Financial Instruments</u>

See our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2011 for additional information on our accounting and purpose for entering into derivatives and our overall risk management strategies.

Fair Value of Derivative Instruments:

Derivative instruments were recorded at fair value in the condensed consolidated balance sheets as of September 30, 2012 and December 31, 2011 as follows:

	September 30, 2012 Asset Derivatives	Liability Derivatives	December 31, 2011 Asset Derivatives	Liability Derivatives
	(in millions)			
Derivatives designated as hedging instruments:				
Foreign exchange contracts	$ 12	$ 22	$ 76	$ 5
Commodity contracts	34	31	14	27
Interest rate contracts			2	519
	$ 46	$ 53	$ 92	$ 551
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	$ 12	$ 24	$ 13	$ 5
Commodity contracts	191	124	392	372
Interest rate contracts	91	495	86	51
	$ 294	$ 643	$ 491	$ 428
Total fair value	$ 340	$ 696	$ 583	$ 979

The fair value of our asset derivatives is recorded within other current assets and the fair value of our liability derivatives is recorded within other current liabilities.

The fair value (asset / (liability)) of our derivative instruments at September 30, 2012 was determined using:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Foreign exchange contracts	$ (22)	$	$ (22)	$
Commodity contracts	70	67	3	
Interest rate contracts	(404)		(404)	
Total derivatives	$ (356)	$ 67	$ (423)	$

The fair value (asset / (liability)) of our derivative instruments at December 31, 2011 was determined using:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Foreign exchange contracts	$ 79	$	$ 79	$
Commodity contracts	7	(41)	48	
Interest rate contracts	(482)		(482)	
Total derivatives	$ (396)	$ (41)	$ (355)	$

Level 2 financial assets and liabilities consist of commodity forwards and options; foreign exchange forwards and options; currency swaps; and interest rate swaps. Commodity derivatives are valued using an income approach based on the observable market commodity index prices less the contract rate multiplied by the notional amount or based on pricing models that rely on market observable inputs such as commodity prices. Foreign currency contracts are valued using an income approach based on observable market forward rates less the contract rate multiplied by the notional amount. Our calculation of the fair value of interest rate swaps is derived from a discounted cash flow analysis based on the terms of the contract and the observable market interest rate curve. Our calculation of the fair value of financial instruments takes into consideration the risk of nonperformance, including counterparty credit risk.

Derivative Volume:

The net notional values of our derivative instruments as of September 30, 2012 and December 31, 2011 were:

	Notional Amount September 30, 2012	Notional Amount December 31, 2011
	(in millions)	
Foreign exchange contracts:		
Intercompany loans and forecasted interest payments	$ 3,320	$ 1,982
Forecasted transactions	2,246	1,181
Commodity contracts	1,289	1,287
Interest rate contracts	2,355	4,872

Net investment hedge	euro notes	1,093	3,694
Net investment hedge	pound sterling notes	1,051	1,010

Cash Flow Hedges:

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

	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
	(in millions)		(in millions)	
Accumulated gain / (loss) at beginning of period	$ (439)	$ (56)	$ (297)	$ 79
Transfer of realized losses / (gains) in fair value to earnings	277	(1)	352	(18)
Unrealized gain / (loss) in fair value	(5)	(365)	(222)	(483)
Accumulated gain / (loss) at September 30	$ (167)	$ (422)	$ (167)	$ (422)

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

	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
	(in millions)		(in millions)	
Foreign exchange contracts intercompany loans	$	$	$	$ 1
Foreign exchange contracts forecasted transactions	(12)	59	(12)	(14)
Commodity contracts	7	(33)	(28)	(37)
Interest rate contracts		(391)	(182)	(433)
Total	$ (5)	$ (365)	$ (222)	$ (483)

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

	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
	(in millions)		(in millions)	
Foreign exchange contracts forecasted transactions	$ 15	$ (12)	$ 63	$ (45)
Commodity contracts	(14)	13	(39)	64
Interest rate contracts	(278)		(376)	(1)
Total	$ (277)	$ 1	$ (352)	$ 18

Pre-tax gains / (losses) on ineffectiveness recognized in net earnings were:

	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
	(in millions)		(in millions)	
Foreign exchange contracts	$	$	$	$
Commodity contracts	3	(2)	(3)	2
Interest rate contracts		4	(23)	(2)
Total	$ 3	$ 2	$ (26)	$

Pre-tax gains / (losses) on amounts excluded from effectiveness testing recognized in net earnings were:

	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
	(in millions)		(in millions)	
Foreign exchange contracts	$	$	$	$
Commodity contracts	(4)	4	(3)	4
Interest rate contracts	(436)		(566)	