

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MEAD JOHNSON NUTRITION COMPANY **CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS** **(Dollars and shares in millions, except per share data)** **(UNAUDITED)**

	Three Months Ended March 31,	
	2017	2016
NET SALES	\$ 883.5	\$ 962.1
Cost of Products Sold	330.2	347.6
GROSS PROFIT	553.3	614.5
Operating Expenses:		
Selling, General and Administrative	193.7	198.9
Advertising and Promotion	160.3	151.8
Research and Development	21.4	25.4
Other (Income)/Expenses—net	22.8	88.3
EARNINGS BEFORE INTEREST AND INCOME TAXES	155.1	150.1
Interest Expense—net	27.1	26.2
EARNINGS BEFORE INCOME TAXES	128.0	123.9
Provision for Income Taxes	10.4	47.2
NET EARNINGS	117.6	76.7
Less Net Earnings/(Loss) Attributable to Noncontrolling Interests	(2.3)	4.0
NET EARNINGS ATTRIBUTABLE TO SHAREHOLDERS	\$ 119.9	\$ 72.7
Earnings per Share—Basic		
Net Earnings Attributable to Shareholders	\$ 0.65	\$ 0.39
Earnings per Share—Diluted		
Net Earnings Attributable to Shareholders	\$ 0.65	\$ 0.39
Weighted Average Shares—Basic	183.5	186.6
Weighted Average Shares—Diluted	183.9	186.7
Dividends Declared per Share	\$ 0.4125	\$ 0.4125

The accompanying notes are an integral part of these condensed consolidated financial statements.

MEAD JOHNSON NUTRITION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)
(UNAUDITED)

	Three Months Ended March 31,	
	2017	2016
NET EARNINGS	\$ 117.6	\$ 76.7
OTHER COMPREHENSIVE INCOME/(LOSS)		
Foreign Currency Translation Adjustments		
Translation Adjustments	33.3	5.9
Tax Effect on Foreign Currency Translation Adjustments	(0.5)	0.2
Deferred Gains/(Losses) on Derivatives Qualifying as Hedges		
Deferred Gains/(Losses) on Derivatives Qualifying as Hedges for the Period	(4.4)	(11.6)
Reclassification Adjustment for (Gains)/Losses Included in Net Earnings	(2.4)	(5.5)
Tax Effect on Deferred Gains/(Losses) on Derivatives Qualifying as Hedges	2.1	3.8
OTHER COMPREHENSIVE INCOME/(LOSS)	<u>28.1</u>	<u>(7.2)</u>
COMPREHENSIVE INCOME	<u>145.7</u>	<u>69.5</u>
Less Comprehensive Income/(Loss) Attributable to Noncontrolling Interests	<u>(2.3)</u>	<u>3.2</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS	<u>\$ 148.0</u>	<u>\$ 66.3</u>

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MEAD JOHNSON NUTRITION COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars and shares in millions, except per share data)
(UNAUDITED)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 1,724.4	\$ 1,795.4
Restricted Cash	152.5	—
Receivables—net of allowances of \$4.4 and \$4.4, respectively	355.0	369.0
Inventories - net	498.5	473.5
Income Taxes Receivable	26.1	8.3
Prepaid Expenses and Other Assets	60.8	60.4
Total Current Assets	2,817.3	2,706.6
Property, Plant and Equipment – net	963.6	948.6
Goodwill	113.1	108.9
Other Intangible Assets – net	43.9	46.0
Deferred Income Taxes – net of valuation allowance	148.4	143.1
Other Assets	140.8	134.5
TOTAL	<u>\$ 4,227.1</u>	<u>\$ 4,087.7</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-Term Borrowings	\$ 4.5	\$ 3.9
Accounts Payable	536.0	515.8
Dividends Payable	76.3	76.0
Accrued Expenses	216.2	194.7
Accrued Rebates and Returns	415.0	417.4
Deferred Income	10.9	12.4
Income Taxes Payable	49.9	24.0
Total Current Liabilities	1,308.8	1,244.2
Long-Term Debt	2,973.3	2,976.2
Deferred Income Taxes	6.0	6.2
Pension and Other Post-employment Liabilities	99.2	104.2
Other Liabilities	232.6	229.0
Total Liabilities	4,619.9	4,559.8
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Shareholders' Equity		
Common Stock, \$0.01 par value: 3,000 authorized, 188.6 and 188.3 issued, respectively	1.9	1.9
Additional Paid-in/(Distributed) Capital	(499.5)	(514.0)
Retained Earnings	812.4	773.4
Treasury Stock – at cost	(362.6)	(362.6)
Accumulated Other Comprehensive Loss	(383.3)	(411.4)
Total Shareholders' Equity/(Deficit)	(431.1)	(512.7)
Noncontrolling Interests	38.3	40.6
Total Equity/(Deficit)	(392.8)	(472.1)
TOTAL	<u>\$ 4,227.1</u>	<u>\$ 4,087.7</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

MEAD JOHNSON NUTRITION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY/(DEFICIT)
(Dollars in millions, except per share data)
(UNAUDITED)

	Common Stock	Additional Paid-in (Distributed) Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Equity/ (Deficit)
Balance as of January 1, 2017	\$ 1.9	\$ (514.0)	\$ 773.4	\$(362.6)	\$ (411.4)	\$ 40.6	\$(472.1)
Stock-based Compensation Awards ⁽¹⁾	—	14.5	(4.7)	—	—	—	9.8
Cash Dividends Declared (\$0.4125 per share)	—	—	(76.2)	—	—	—	(76.2)
Net Earnings	—	—	119.9	—	—	(2.3)	117.6
Other Comprehensive Income/(Loss)	—	—	—	—	28.1	—	28.1
Balance as of March 31, 2017	<u>\$ 1.9</u>	<u>\$ (499.5)</u>	<u>\$ 812.4</u>	<u>\$(362.6)</u>	<u>\$ (383.3)</u>	<u>\$ 38.3</u>	<u>\$(392.8)</u>
Balance as of January 1, 2016	\$ 1.9	\$ (564.2)	\$ 640.4	\$(362.6)	\$ (347.8)	\$ 39.8	\$(592.5)
Stock-based Compensation Awards (includes excess tax shortfalls of \$0.3)	—	11.4	(3.5)	—	—	—	7.9
Cash Dividends Declared (\$0.4125 per share)	—	—	(77.3)	—	—	—	(77.3)
Net Earnings	—	—	72.7	—	—	4.0	76.7
Other Comprehensive Income/(Loss)	—	—	—	—	(6.4)	(0.8)	(7.2)
Balance as of March 31, 2016	<u>\$ 1.9</u>	<u>\$ (552.8)</u>	<u>\$ 632.3</u>	<u>\$(362.6)</u>	<u>\$ (354.2)</u>	<u>\$ 43.0</u>	<u>\$(592.4)</u>

⁽¹⁾ Excess Tax Benefits/Shortfalls excluded for 2017. See “—Note 2. Accounting Policies” for additional information on recently adopted accounting standards.

The accompanying notes are an integral part of these condensed consolidated financial statements.

MEAD JOHNSON NUTRITION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)
(UNAUDITED)

	Three Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ 117.6	\$ 76.7
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	25.8	24.9
Impairment of Long-Lived Assets	—	45.9
Other Non-Cash Items	(12.6)	36.0
Changes in Assets and Liabilities	65.7	(23.4)
Pension and Other Post-employment Benefit Contributions	(0.1)	—
Net Cash Provided by Operating Activities	<u>196.4</u>	<u>160.1</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for Capital Expenditures	(48.5)	(55.6)
Proceeds from Sale of Property, Plant and Equipment	0.1	0.1
Net Cash Used in Investing Activities	<u>(48.4)</u>	<u>(55.5)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Short-term Borrowings	0.6	0.4
Repayments of Short-term Borrowings	—	(0.1)
Debt Issuance Costs	—	(0.1)
Payments of Dividends	(75.9)	(77.4)
Stock-based Compensation related Proceeds and Excess Tax Benefits ⁽¹⁾	5.4	3.7
Stock-based Compensation Tax Withholdings	(4.7)	(3.5)
Net Cash Used in Financing Activities	<u>(74.6)</u>	<u>(77.0)</u>
Effects of Changes in Exchange Rates on Cash, Cash Equivalents and Restricted Cash	<u>8.1</u>	<u>(26.7)</u>
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH ⁽²⁾	81.5	0.9
CASH, CASH EQUIVALENTS AND RESTRICTED CASH⁽³⁾:		
Beginning of Period	1,795.4	1,701.4
End of Period	<u><u>\$ 1,876.9</u></u>	<u><u>\$ 1,702.3</u></u>

⁽¹⁾ Excess Tax Benefits excluded for 2017. See “—Note 2. Accounting Policies” for additional information on recently adopted accounting standards.

⁽²⁾ See “—Note 19. Mergers and Acquisitions” for additional information on restricted cash.

⁽³⁾ Cash, Cash Equivalents and Restricted Cash is the sum of Cash and Cash Equivalents of \$1,724.4 million and \$1,795.4 million at March 31, 2017 and December 31, 2016, respectively, and Restricted Cash of \$152.5 million at March 31, 2017.

The accompanying notes are an integral part of these condensed consolidated financial statements.

MEAD JOHNSON NUTRITION COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION

Mead Johnson Nutrition Company (“MJN” or the “Company”) manufactures, distributes and sells infant formula, children’s nutrition and other nutritional products. MJN has a broad product portfolio, which extends across routine and specialty infant formulas, children’s milks and milk modifiers, dietary supplements for pregnant and breastfeeding mothers, pediatric vitamins, and products for pediatric metabolic disorders. These products are generally sold to distributors and retailers and are promoted to healthcare professionals, and, where permitted by regulation and policy, directly to consumers.

2. ACCOUNTING POLICIES

Basis of Presentation—The Company prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the Securities and Exchange Commission (“SEC”). Under those rules, certain footnotes and other financial information that are normally required by GAAP for annual financial statements have been condensed or omitted. The Company is responsible for the financial statements and the related notes included in this Form 10-Q.

The condensed consolidated financial statements include all of the normal and recurring adjustments necessary for the fair presentation of the Company’s financial position as of March 31, 2017 and December 31, 2016, the results of operations for the three months ended March 31, 2017 and 2016 and the cash flows for the three months ended March 31, 2017 and 2016. Intercompany balances and transactions have been eliminated. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results and trends in these unaudited condensed consolidated financial statements may not be indicative of full-year operating results or future performance.

The accounting policies used in preparing these condensed consolidated financial statements are the same as those used to prepare the Company’s annual report on Form 10-K for the year ended December 31, 2016 (“2016 Form 10-K”) other than described within. These unaudited condensed consolidated financial statements and the related notes should be read in conjunction with the audited year-end financial statements and accompanying notes included in the Company’s 2016 Form 10-K.

Recently Adopted Accounting Standards—In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company did not have any restricted cash and restricted cash equivalents prior to January 1, 2017, and elected to early adopt the updated standard for new restricted cash and restricted cash equivalents that have arisen in the annual period beginning January 1, 2017.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This update simplifies several aspects of the accounting for share-based compensation arrangements, including accounting for income taxes, forfeitures and statutory tax withholding requirements as well as classification of related amounts on the statement of cash flows. The standard was adopted prospectively by the Company on January 1, 2017 with no adjustments to prior periods required. The Company recognized \$1.1 million of excess tax benefits within the condensed consolidated statements of earnings during the three months ended March 31, 2017. Prior to the adoption of this standard, such benefits would have been recorded within additional paid-in capital. Additionally, the Company recorded the excess tax benefit within cash flows from operating activities on the condensed consolidated statement of cash flows. Other elements of the standard had no material impact to the Company as the Company previously presented cash paid for tax withholdings under financing activities within the statements of cash flows and the Company has elected to continue to estimate for forfeitures and to not withhold more than the minimum statutory tax rate.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory (Topic 330)*. This update simplifies the guidance on the subsequent measurement of inventory. GAAP previously required an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value or net realizable value less an approximate normal profit margin. Under the new standard, inventory should be valued at the lower of cost or net realizable value. The updated standard was effective for the Company in the annual period beginning January 1, 2017 and was adopted prospectively.

Given the Company has not experienced markdowns of inventory due to lower of cost or market considerations, adoption of this updated standard had no material impact on the consolidated financial statements.

Recently Issued Accounting Standards—In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This update requires disaggregating the service cost component from the other components of net benefit cost and provides explicit guidance on the presentation of these costs in the income statement. The updated standard is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350)*. This update simplifies goodwill impairment testing by eliminating step two from the goodwill impairment test. Under the updated standard, the Company still has the option to perform its annual, or interim, goodwill impairment test using the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The quantitative impairment test is to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The updated standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update is intended to reduce diversity in practice in the classification of certain cash receipts and payments in the statement of cash flows. The updated standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The updated standard requires most leases to be reflected on the balance sheet. It also aligns many of the underlying principles of the new lessor model with those of ASC No. 606, *Revenue from Contracts with Customers*. The updated standard is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The adoption of this standard is expected to result in a significant increase to the Company's consolidated balance sheets for lease assets and liabilities, and the Company is currently evaluating the other effects the updated standard will have on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to that, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 to clarify, among other things, the implementation guidance related to principal versus agent considerations, identifying performance obligations, and accounting for licenses of intellectual property. The updated standard and related clarifications will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The updated standard becomes effective for the Company in the first quarter of 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures. From the results of the preliminary review, the Company believes the impact of adopting the updated standard primarily relates to the timing of the recognition of variable consideration. Under current guidance, the Company accounts for sales incentives offered to its customers at the later of the date at which the Company has sold the product or the date at which the program is offered. The new guidance requires earlier recognition if the sales incentive is implied by the Company's customary business practice, even if the Company has not yet explicitly communicated its intent to make the payment to the customer. Analysis of the Company's historical and future trends and use of judgment are required. The Company is in the process of quantifying such impact and, based upon the current portfolio of contracts, such financial impact is not expected to be material, however it is expected that disclosure will be enhanced. The Company anticipates using the modified retrospective adoption method.

3. EARNINGS PER SHARE

The Company uses the two-class method to calculate earnings per share. The numerator for basic and diluted earnings per share is *net earnings attributable to shareholders* reduced by dividends and undistributed earnings attributable to unvested shares. The denominator for basic earnings per share is the weighted-average shares outstanding during the period. The denominator for diluted earnings per share is the weighted-average number of shares outstanding adjusted for the effect of dilutive stock options and performance share awards.

The following table presents the calculation of basic and diluted earnings per share:

(Dollars and shares in millions, except per share data)	Three Months Ended March 31,	
	2017	2016
Basic earnings per share:		
Weighted-average shares outstanding	183.5	186.6
Net earnings attributable to shareholders	\$ 119.9	\$ 72.7
Dividends and undistributed earnings attributable to unvested shares	(0.7)	(0.3)
Net earnings attributable to shareholders used for basic earnings per share calculation	\$ 119.2	\$ 72.4
Net earnings attributable to shareholders per share	\$ 0.65	\$ 0.39
Diluted earnings per share:		
Weighted-average shares outstanding	183.5	186.6
Incremental shares outstanding assuming the exercise/vesting of dilutive stock options/performance shares	0.4	0.1
Weighted-average shares — diluted	183.9	186.7
Net earnings attributable to shareholders	\$ 119.9	\$ 72.7
Dividends and undistributed earnings attributable to unvested shares	(0.7)	(0.3)
Net earnings attributable to shareholders used for diluted earnings per share calculation	\$ 119.2	\$ 72.4
Net earnings attributable to shareholders per share	\$ 0.65	\$ 0.39

Potential shares outstanding from all stock-based awards were 3.6 million as of March 31, 2017 and 2016, of which 3.2 million and 3.5 million were not included in the diluted earnings per share calculation for the three months ended March 31, 2017 and 2016, respectively.

4. INCOME TAXES

The Company's effective tax rate ("ETR") differs from the statutory tax rate predominantly due to the favorable impact of tax rulings and agreements in various foreign jurisdictions. The Company and the Dutch tax authorities previously agreed to the appropriate remuneration attributable to Dutch manufacturing activities through the year ending December 31, 2019. In addition, the Company negotiated a tax ruling under which certain profits in Singapore are eligible for favorable taxation through the year ending December 31, 2027.

For the three months ended March 31, 2017 and 2016, the ETR was 8.1% and 38.1%, respectively. The 30.0% change in the ETR was driven by the following benefits: (i) 23.3% related to the Company's Venezuelan subsidiary which incurred a remeasurement loss on its monetary assets and an impairment charge on its long-lived assets in 2016 (both of which provided no tax benefit in 2016), (ii) 10.8% due to higher tax credit recognition associated with the repatriation of foreign earnings, (iii) 7.6% from changes in reserves for uncertain tax positions, and (iv) 1.7% from a series of additional items which are insignificant both individually and in the aggregate. These benefits were offset by a 13.4% impact from unfavorable changes in the Company's geographic earnings mix.

The Company's gross reserve for uncertain tax positions including penalties and interest, as of March 31, 2017 and December 31, 2016, was \$208.3 million and \$199.3 million, respectively. The Company believes that it has adequately provided for all uncertain tax positions. The Company is currently under examination by taxing authorities in various jurisdictions in which it operates, including its two largest businesses in the United States and China. It is reasonably possible that new issues may be raised by tax authorities and that these issues may require increases in the balance of the reserve for uncertain tax positions. A reversal of uncertain tax positions up to \$50 million, of which approximately \$27 million would impact the effective tax rate, is reasonably possible in the next 12 months due to the running of statutes of limitations and settlements with various taxing authorities.

5. SEGMENT INFORMATION

MJN operates in four geographic operating segments: Asia, Europe, Latin America and North America. Based on this operating segmentation, the chief operating decision maker regularly assesses information for decision making purposes, including allocation of resources. Due to similarities between North America and Europe, the Company aggregates these two operating segments into one reportable segment. As a result, the Company has three reportable segments: Asia, Latin America and North America/Europe.

Corporate and Other consists of unallocated global business support activities, including research and development, marketing, supply chain, and general and administrative expenses; net actuarial gains and losses related to defined benefit pension and other post-employment plans; and income or expenses incurred within the operating segments that are not reflective of underlying operations and affect the comparability of the operating segments' results.

The following table summarizes net sales and earnings before interest and income taxes for each of the reportable segments:

(Dollars in millions)	Three Months Ended March 31,			
	Net Sales		Earnings Before Interest and Income Taxes	
	2017	2016	2017	2016
Asia	\$ 434.1	\$ 500.6	\$ 116.8	\$ 169.1
Latin America	156.2	160.3	39.8	40.8
North America/Europe	293.2	301.2	69.0	82.0
Total reportable segments	883.5	962.1	225.6	291.9
Corporate and Other	—	—	(70.5)	(141.8)
Total	\$ 883.5	\$ 962.1	\$ 155.1	\$ 150.1

6. RESTRUCTURING

During the third quarter of 2015, the Company approved a plan to implement a business productivity program referred to as "Fuel for Growth," which is expected to be implemented over a three-year period. Fuel for Growth is designed to improve operating efficiencies and reduce costs. Fuel for Growth is expected to improve profitability and create additional investments behind brand building and growth initiatives. Fuel for Growth focuses on the optimization of resources within various operating functions and certain third party costs across the business.

A summary of restructuring charges recognized within *other (income)/expenses - net* during the three months ended March 31, 2017 and 2016 and related reserves associated with Fuel for Growth as of March 31, 2017 is as follows:

Restructuring Charges (Dollars in millions)	Three Months Ended	
	March 31, 2017	March 31, 2016
Severance and Employee Benefits	\$ 7.9	\$ 8.2
Asset Write-off	—	0.3
Other Costs	2.0	0.6
	<u>\$ 9.9</u>	<u>\$ 9.1</u>

Restructuring Reserves (Dollars in millions)	Severance and Employee Benefits ⁽¹⁾	Contract Termination ⁽²⁾	Other Costs ⁽³⁾	Total
Balance as of January 1, 2017	\$ 14.2	\$ 10.3	\$ 3.0	\$ 27.5
Charges	7.9	—	2.0	9.9
Cash Payments	(6.3)	(3.5)	(0.3)	(10.1)
Balance as of March 31, 2017	<u>\$ 15.8</u>	<u>\$ 6.8</u>	<u>\$ 4.7</u>	<u>\$ 27.3</u>
Balance as of January 1, 2016	\$ 9.5	\$ 10.3	\$ —	\$ 19.8
Charges	8.2	—	0.6	8.8
Cash Payments	(6.9)	—	(0.6)	(7.5)
Balance as of March 31, 2016	<u>\$ 10.8</u>	<u>\$ 10.3</u>	<u>\$ —</u>	<u>\$ 21.1</u>

⁽¹⁾ Included in *accrued expenses* on the balance sheet.

⁽²⁾ Included in *accrued expenses* and *other liabilities* on the balance sheet.

⁽³⁾ Included in *accounts payable* on the balance sheet.

Restructuring charges are included in *Corporate and Other*. Reserves related to severance and employee benefits and other costs will be paid out during the next twelve months. The contract termination costs will be paid over a period from 2017 to 2019.

7. EMPLOYEE STOCK BENEFIT PLANS

The following table summarizes stock-based compensation expense related to stock options, performance share awards and restricted stock units.

(Dollars in millions)	Three Months Ended March 31,	
	2017	2016
Stock options	\$ 2.5	\$ 2.1
Performance share awards	1.4	2.3
Restricted stock units	5.5	3.4
Total pre-tax stock-based compensation expense	\$ 9.4	\$ 7.8
Net tax benefit related to stock-based compensation expense	\$ (3.1)	\$ (2.7)

During the three months ended March 31, 2017, the Company granted the following awards:

(Shares in millions)	Options/Shares Granted	Weighted-Average Grant Date Fair Value
Performance share awards	0.1	\$ 84.87
Restricted stock units	0.5	\$ 87.79

As of March 31, 2017, the Company had the following award expense yet to be recognized:

(Dollars in millions)	Unrecognized Compensation Expense	Expected Weighted-Average Period to be Recognized (years)
Stock options	\$ 6.7	2.0
Performance share awards	10.0	1.2
Restricted stock units	71.9	2.6
Total	\$ 88.6	

8. PENSION AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The net periodic benefit cost of the Company's defined benefit pension and post-employment benefit plans includes:

(Dollars in millions)	Three Months Ended March 31,			
	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Service cost – benefits earned during the period	\$ 0.9	\$ 0.7	\$ 0.3	\$ 0.3
Interest cost on projected benefit obligations	2.7	3.0	0.4	0.4
Expected return on plan assets	(4.0)	(4.1)	—	—
Net periodic benefit cost	\$ (0.4)	\$ (0.4)	\$ 0.7	\$ 0.7
Net actuarial (gains)/losses	—	6.1	—	—
Total net periodic expense/(benefit)	\$ (0.4)	\$ 5.7	\$ 0.7	\$ 0.7

The Company remeasures its U.S. pension plan when year-to-date aggregate lump sum settlements exceed anticipated interest costs for the year, and in each subsequent quarter of that fiscal year. Because aggregate lump sum settlements did not exceed anticipated 2017 annual interest costs during the first quarter of 2017, there was no remeasurement, and therefore no actuarial gain or loss was recognized during the three months ended March 31, 2017. Because aggregate lump sum settlements exceeded anticipated 2016 annual interest costs during the first quarter of 2016, the Company remeasured its U.S. pension plan during the first quarter of 2016 and recognized a net actuarial loss of \$6.1 million during the three months ended March 31, 2016.

During the three months ended March 31, 2017, the Company contributed \$0.1 million to foreign pension plans. During the three months ended March 31, 2016, the Company made no contributions to pension plans.

9. OTHER (INCOME)/EXPENSES - NET

The components of *other (income)/expenses - net* were:

(Dollars in millions)	Three Months Ended March 31,	
	2017	2016
Restructuring, severance and other related costs—net	\$ 9.9	\$ 9.3
Merger related costs	6.8	—
Administrative office relocation	4.8	—
Foreign exchange (gains)/losses—net	1.9	33.7
Venezuela long-lived asset impairments	—	45.9
Legal, settlements and other—net	(0.6)	(0.6)
Other (income)/expenses—net	\$ 22.8	\$ 88.3

During the three months ended March 31, 2017 and 2016, restructuring, severance and other related costs—net included \$9.9 million and \$9.1 million, respectively, of restructuring costs associated with the Fuel for Growth program. See “—Note 6. Restructuring” for additional information.

Merger related costs for the three months ended March 31, 2017 included costs incurred by the Company associated with the proposed merger with Reckitt Benckiser. See “—Note 19. Mergers and Acquisitions” for additional information.

During the three months ended March 31, 2017, administrative office relocation included costs associated with moving the Company’s administrative offices in the U.S., including contract termination fees.

Foreign exchange (gains)/losses—net includes the re-measurement of U.S. dollar denominated intercompany loans, payables, and royalties for the three months ended March 31, 2017 and 2016, as well as foreign currency devaluation recognized in the Company’s Venezuelan subsidiary of \$32.3 million for the three months ended March 31, 2016. See “—Note 17. Venezuela Matters” for additional information.

During the three months ended March 31, 2016, the Company recognized impairment charges of \$45.9 million on long-lived assets of its Venezuelan subsidiary. See “—Note 17. Venezuela Matters” for additional information.

10. NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTERESTS

Net earnings attributable to noncontrolling interests consists of a 11%, 10% and 10% interest held by third parties in operating entities in China, Argentina and Indonesia, respectively.

11. INVENTORIES - NET

The major categories of *inventories - net* were as follows:

(Dollars in millions)	March 31, 2017	December 31, 2016
Finished goods	\$ 289.2	\$ 262.9
Work in process	61.8	64.1
Raw and packaging materials	147.5	146.5
Inventories - net	\$ 498.5	\$ 473.5

12. LONG-LIVED ASSETS

Property, Plant and Equipment - net

The major categories of *property, plant and equipment* were as follows:

(Dollars in millions)	March 31, 2017	December 31, 2016
Land	\$ 8.2	\$ 8.1
Buildings and improvements	775.4	739.8
Machinery, equipment and fixtures	868.3	823.9
Construction in progress	73.0	110.4
Accumulated depreciation	(761.3)	(733.6)
Property, plant and equipment — net	<u>\$ 963.6</u>	<u>\$ 948.6</u>

Other Intangible Assets - net

The Company tests intangible assets not subject to amortization for impairment in the third quarter of each year and whenever an event occurs or circumstances change that indicate that it is more likely than not that the asset is impaired. No events have occurred through March 31, 2017 that would require the Company to review intangible assets not subject to amortization for impairment subsequent to the review performed during the third quarter of 2016.

The gross carrying value and accumulated amortization by class of *intangible assets* as of March 31, 2017 and December 31, 2016 were as follows:

(Dollars in millions)	March 31, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Indefinite-lived intangible assets:						
Trademark ⁽¹⁾	\$ 14.2	\$ —	\$ 14.2	\$ 14.4	\$ —	\$ 14.4
Non-compete agreement ⁽¹⁾	2.8	—	2.8	2.8	—	2.8
Sub-total	<u>17.0</u>	<u>—</u>	<u>17.0</u>	<u>17.2</u>	<u>—</u>	<u>17.2</u>
Amortizable intangible assets:						
Computer software	146.8	(120.6)	26.2	145.4	(117.3)	28.1
Distributor-customer relationship ⁽²⁾	1.4	(0.7)	0.7	1.4	(0.7)	0.7
Sub-total	<u>148.2</u>	<u>(121.3)</u>	<u>26.9</u>	<u>146.8</u>	<u>(118.0)</u>	<u>28.8</u>
Total other intangible assets	<u>\$ 165.2</u>	<u>\$ (121.3)</u>	<u>\$ 43.9</u>	<u>\$ 164.0</u>	<u>\$ (118.0)</u>	<u>\$ 46.0</u>

⁽¹⁾ Changes in balances result from currency translation.

⁽²⁾ Changes in balances result from currency translation and amortization (10 year life).

Non-Cash Activity

Capital expenditures and the cash outflow for capital expenditures were as follows:

(Dollars in millions)	Capital expenditures	Cash outflow for capital expenditures	Increase/(Decrease) in capital expenditures not paid
Three Months Ended March 31, 2017	\$ 29.8	\$ 48.5	\$ (18.7)
Three Months Ended March 31, 2016	\$ 17.2	\$ 55.6	\$ (38.4)

13. GOODWILL

The Company tests goodwill for impairment in the third quarter of each year and whenever an event occurs or circumstances change that would, more likely than not, reduce the fair value of a reporting unit below its carrying amount. No events have

occurred through March 31, 2017 that would require the Company to review goodwill for impairment subsequent to the review performed in the third quarter of 2016.

For the three months ended March 31, 2017 and 2016, the change in the carrying amount of *goodwill* by reportable segment was as follows:

(Dollars in millions)	Asia	Latin America	North America/ Europe	Total
Balance as of January 1, 2017	\$ —	\$ 89.9	\$ 19.0	\$ 108.9
Translation adjustments	—	4.2	—	4.2
Balance as of March 31, 2017	<u>\$ —</u>	<u>\$ 94.1</u>	<u>\$ 19.0</u>	<u>\$ 113.1</u>
Balance as of January 1, 2016	\$ —	\$ 107.0	\$ 19.0	\$ 126.0
Translation adjustments	—	(6.0)	—	(6.0)
Balance as of March 31, 2016	<u>\$ —</u>	<u>\$ 101.0</u>	<u>\$ 19.0</u>	<u>\$ 120.0</u>

As of March 31, 2017, the Company had no accumulated impairment loss.

14. DEBT

Short-Term Borrowings

As of March 31, 2017 and December 31, 2016, the Company's *short-term borrowings* were \$4.5 million and \$3.9 million, respectively, and consisted of borrowings made by the Company's subsidiary in Argentina. The *short-term borrowings* in Argentina had a weighted-average interest rate of 27.5% as of March 31, 2017.

Revolving Credit Facility

As of March 31, 2017 and December 31, 2016, the Company had no borrowings against its \$750.0 million revolving credit facility, and the Company had \$750.0 million available at March 31, 2017. The revolving credit facility contains financial covenants and the Company was in compliance with these financial covenants as of March 31, 2017. Any borrowings under the facility are repayable at maturity in June 2019.

Long-Term Debt

The components of *long-term debt* were as follows:

(Dollars in millions)	March 31, 2017	December 31, 2016
Principal Value:		
4.900% Notes due 2019 ("2019 Notes")	\$ 700.0	\$ 700.0
3.000% Notes due 2020 ("2020 Notes")	750.0	750.0
4.125% Notes due 2025 ("2025 Notes")	750.0	750.0
5.900% Notes due 2039 ("2039 Notes")	300.0	300.0
4.600% Notes due 2044 ("2044 Notes")	500.0	500.0
Sub-total	<u>3,000.0</u>	<u>3,000.0</u>
Adjustments to Principal Value:		
Unamortized basis adjustment for settled interest rate swaps	4.7	5.1
Unamortized bond discount	(4.2)	(4.3)
Unamortized debt issuance costs	(18.8)	(19.4)
Fair-value interest rate swaps	(8.4)	(5.2)
Long-term debt	<u>\$ 2,973.3</u>	<u>\$ 2,976.2</u>

Using quoted prices in markets that are not active, long-term debt is classified as Level 2 in the fair value hierarchy. The Company determined that the fair value of its long-term debt was \$3,165.2 million as of March 31, 2017.

The components of *interest expense-net* were as follows:

(Dollars in millions)	Three Months Ended March 31,	
	2017	2016
Interest expense	\$ 30.8	\$ 29.0
Interest income	(3.7)	(2.8)
Interest expense-net	<u>\$ 27.1</u>	<u>\$ 26.2</u>

15. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company is exposed to market risk due to changes in foreign currency exchange rates, commodities pricing and interest rates. To manage that risk, the Company enters into certain derivative financial instruments, when available on a cost-effective basis, to hedge its underlying economic exposure. The Company does not enter into derivatives for speculative purposes. These financial instruments are classified as Level 2 in the fair value hierarchy at March 31, 2017 and December 31, 2016, and there were no transfers between levels in the fair value hierarchy during the periods then ended.

The following table summarizes the fair value of the Company's outstanding derivatives:

(Dollars in millions)	Hedge Designation	Balance Sheet Location	March 31, 2017	December 31, 2016
Foreign exchange contracts	Cash Flow	Prepaid expenses and other assets	\$ 3.6	\$ 10.9
Interest rate swaps	Fair Value	Other assets	—	1.1
Foreign exchange contracts	Cash Flow	Accrued expenses	(1.8)	(0.2)
Interest rate swaps	Fair Value	Other liabilities	(8.4)	(6.3)
Commodity contracts	Cash Flow	Accrued expenses	(0.2)	—
Net asset/(liability) of derivatives designated as hedging items			<u>\$ (6.8)</u>	<u>\$ 5.5</u>

While certain derivatives are subject to netting arrangements with the Company's counterparties, the Company does not offset derivative assets and liabilities within the consolidated balance sheets presented herein.

The Company's derivative financial instruments present certain market and counterparty risks; however, concentration of counterparty risk is mitigated as the Company deals with a variety of major banks worldwide whose long-term debt at hedge inception is rated A- or higher by Standard & Poor's Rating Service, Fitch Ratings or Moody's Investors Service, Inc. In addition, only conventional derivative financial instruments are used. The Company would not be materially impacted if any of the counterparties to the derivative financial instruments outstanding at March 31, 2017 failed to perform according to the terms of its agreement. Based upon the risk profile of the Company's portfolio, MJN does not require collateral or any other form of securitization to be furnished by the counterparties to its derivative financial instruments.

Cash Flow Hedges

As of March 31, 2017 and December 31, 2016, the Company has cash flow hedges which qualify as hedges of forecasted cash flows, with the effective portion of changes in fair value temporarily reported in *accumulated other comprehensive income (loss)*. During the period that the underlying hedged transaction impacts earnings, the effective portion of the changes in the fair value of the cash flow hedges is recognized within earnings. The Company assesses effectiveness at inception and on a quarterly basis. These assessments determine whether derivatives designated as qualifying hedges continue to be highly effective in offsetting changes in the cash flows of hedged items. Any ineffective portion of the change in fair value is included in current period earnings. Cash flow hedges are valued using quoted prices in markets that are not active.

The Company will discontinue cash flow hedge accounting when the forecasted transaction is no longer probable of occurring on the originally forecasted date, or 60 days thereafter, or when the hedge is no longer effective. For the three months ended March 31, 2017, the Company discontinued cash flow hedge accounting for an insignificant number of hedges with a negligible net impact to the income statement as the underlying transaction was no longer probable. For the three months ended March 31, 2016, the Company did not discontinue any cash flow hedges.

Foreign Exchange Contracts

The Company uses foreign exchange contracts to hedge forecasted transactions, primarily foreign currency denominated intercompany purchases anticipated in the next 15 months and designates these derivative instruments as foreign currency cash flow hedges when appropriate. When the underlying intercompany purchases impact the Company's consolidated earnings, the effective portion of the hedge is recognized within *cost of products sold*, and ineffectiveness related to the Company's foreign exchange hedges on earnings is recognized within *other (income)/expenses - net*. The ineffective portion of the hedges was \$1.3 million for the three months ended March 31, 2017 and 2016.

The table below summarizes the Company's outstanding foreign exchange forward contracts at March 31, 2017. The fair value of all foreign exchange forward contracts is based on quarter-end forward currency rates. The fair value of foreign exchange forward contracts should be viewed in relation to the fair value of the underlying hedged transactions and the overall reduction in exposure to fluctuations in foreign currency exchange rates.

(Dollars in millions)	Weighted-average Forward Rate	Notional Amount	Fair Value Asset
Foreign exchange contracts:			
Cash flow hedges:			
Canadian dollar	1.32	\$ 72.5	\$ 0.6
Mexican peso	19.84	43.4	(1.4)
Malaysian ringgit	4.30	37.6	1.4
Philippine peso	49.34	43.0	1.2
Total foreign exchange contracts		<u>\$ 196.5</u>	<u>\$ 1.8</u>

The change in *accumulated other comprehensive income (loss)* and the impact on earnings from foreign exchange contracts that qualified as cash flow hedges were as follows:

(Dollars in millions)	2017	2016
Balance—January 1	\$ 10.1	\$ 10.1
Derivatives qualifying as cash flow hedges deferred in other comprehensive income	(4.2)	(11.9)
Derivatives qualifying as cash flow hedges reclassified to cost of products sold (effective portion)	(3.0)	(6.3)
Change in deferred taxes	2.2	4.2
Balance—March 31	<u>\$ 5.1</u>	<u>\$ (3.9)</u>

At March 31, 2017, the balance of the effective portion of changes in fair value on foreign exchange forward contracts that qualified for cash flow hedge accounting included in *accumulated other comprehensive income* was \$5.1 million, \$4.6 million of which is expected to be reclassified into earnings within the next 12 months.

Commodity Hedges

The Company utilizes commodity hedges to minimize the variability in cash flows due to fluctuations in market prices of the Company's non-fat dry milk purchases for North America. The maturities of the commodity contracts are scheduled to match the pricing terms of the Company's existing bulk purchase agreements. When the underlying non-fat dry milk purchases impact the Company's consolidated earnings, the effective portion of the hedge is recognized within *cost of products sold*.

As of March 31, 2017, the Company had commodity contracts outstanding which committed the Company to approximately \$6.3 million of forecasted non-fat dry milk purchases. The effective portion of commodity derivatives qualifying as cash flow hedges is deferred in *accumulated other comprehensive income (loss)*, and the ineffective portion is recognized within *other (income)/expenses - net*. Commodity derivatives qualifying as cash flow hedges deferred in *accumulated other comprehensive loss* at March 31, 2017 was \$0.2 million and insignificant at December 31, 2016. During the three months ended March 31, 2017, the Company had no ineffectiveness on commodities. For the three months ended March 31, 2016, the ineffective portion recognized within *other (income)/expenses - net* was \$0.5 million.

Fair Value Hedges

Interest Rate Swaps

During the second quarter of 2014, the Company entered into eight interest rate swaps with multiple counterparties, which have an aggregate notional amount of \$700.0 million of outstanding principal. This series of swaps effectively converts the \$700.0 million of 2019 Notes from fixed to floating rate debt for the remainder of their term. These interest rate swaps were outstanding as of March 31, 2017, and the conversion of fixed to floating rate resulted in a reduction in interest expense of \$1.3 million and \$2.0 million for the three months ended March 31, 2017 and 2016, respectively.

In the fourth quarter of 2015, the Company entered into six interest rate swaps with multiple counterparties to mitigate interest rate exposure associated with the 2020 Notes. The swaps have an aggregate notional amount of \$750.0 million of outstanding principal. This series of swaps effectively converts the \$750.0 million of 2020 Notes from fixed to floating rate debt for the remainder of their term. These interest rate swaps were outstanding as of March 31, 2017, and the conversion of fixed to floating rate resulted in a reduction in interest expense of \$1.2 million and \$2.1 million for the three months ended March 31, 2017 and 2016, respectively.

The following table summarizes the interest rate swaps outstanding as of March 31, 2017. The interest rate swaps for the 2019 Notes have a hedge inception date of May 2014, and the interest rate swaps for the 2020 Notes have an inception date of November 2015. The expiration dates of the interest rate swaps are equal to the stated maturity dates of the underlying debt. Interest rate swaps are valued using third party valuation models.

(Dollars in millions)	Notional Amount of Underlying	Fixed Rate Received	Variable Rate Paid (U.S. 3 Month LIBOR +)	Fair Value Asset/(Liability)	
				March 31, 2017	December 31, 2016
Swaps associated with the 2019 Notes	\$ 700.0	4.9%	3.14%	\$ (0.5)	\$ 1.1
Swaps associated with the 2020 Notes	\$ 750.0	3.0%	1.38%	\$ (7.9)	\$ (6.3)

See “—Note 14. Debt” for additional information regarding the Company’s debt.

Other Financial Instruments

The Company does not hedge the interest rate risk associated with money market funds, which totaled \$251.6 million and \$1,022.0 million as of March 31, 2017 and December 31, 2016, respectively. Money market funds are classified as Level 2 in the fair value hierarchy and are included in *cash and cash equivalents* on the balance sheet. The money market funds have quoted market prices that are equivalent to par.

16. EQUITY

Changes in common shares and treasury stock were as follows:

(Dollars and shares in millions)	Common Shares Issued	Treasury Stock	Cost of Treasury Stock
Balance as of January 1, 2017	188.3	4.9	\$ 362.6
Stock-based Compensation	0.3	—	—
Balance as of March 31, 2017	188.6	4.9	\$ 362.6
Balance as of January 1, 2016	191.4	4.9	\$ 362.6
Stock-based Compensation	0.2	—	—
Balance as of March 31, 2016	191.6	4.9	\$ 362.6

The Company may use either authorized and unissued shares or treasury shares to meet share requirements resulting from the exercise of stock options and vesting of performance share awards and restricted stock units. Treasury stock is recognized at the cost to reacquire the shares. Shares issued from treasury are recognized using the first-in first-out method.

Share Repurchase Authorizations

In September 2013, the Company’s board of directors approved a share repurchase authorization of up to \$500.0 million of the Company’s common stock (the “2013 Authorization”). The 2013 Authorization did not have an expiration date. During

the first quarter of 2016, the Company did not repurchase any shares pursuant to the 2013 Authorization. As of March 31, 2016,

the Company had \$0.4 million remaining available under the 2013 Authorization. In the third quarter of 2016, the Company repurchased \$0.4 million of its common stock which completed all purchases remaining under the 2013 Authorization.

In October 2015, the Company's board of directors approved a share repurchase authorization of an additional \$1,500.0 million of the Company's common stock (the "2015 Authorization"). The 2015 Authorization does not have an expiration date. During the first quarters of 2017 and 2016, the Company did not repurchase any shares pursuant to the 2015 Authorization. As of March 31, 2017, the Company had \$400.0 million remaining available under the 2015 Authorization.

Under the Merger Agreement (as defined in "—Note 19. Mergers and Acquisitions"), the Company is prohibited from redeeming, repurchasing or otherwise acquiring or offering to redeem, repurchase, or otherwise acquire its common stock or other securities, other than shares surrendered to the Company to pay the exercise price in connection with the exercise of employee stock options and shares surrendered to the Company to satisfy tax withholding obligations in connection with the exercise of employee stock options or the vesting of restricted stock units and performance share awards.

Accumulated Other Comprehensive Loss

Changes in *accumulated other comprehensive loss* by component were as follows:

(Dollars in millions)	Foreign Currency Translation Adjustments	Deferred Gains/ (Losses) on Derivatives Qualifying as Hedges	Pension and Other Post- employment Benefits	Total	Noncontrolling Interest
Balance as of January 1, 2017	\$ (395.0)	\$ (15.6)	\$ (0.8)	\$ (411.4)	\$ (13.2)
Deferred Gains/(Losses)	33.3	(4.4)	—	28.9	— ⁽¹⁾
Reclassification Adjustment for (Gains)/Losses Included in Net Earnings	—	(2.4)	—	(2.4)	—
Tax Benefit/(Expense)	(0.5)	2.1	—	1.6	—
Balance as of March 31, 2017	<u>\$ (362.2)</u>	<u>\$ (20.3)</u>	<u>\$ (0.8)</u>	<u>\$ (383.3)</u>	<u>\$ (13.2)</u>
Balance as of January 1, 2016	\$ (329.8)	\$ (17.2)	\$ (0.8)	\$ (347.8)	\$ (12.7)
Deferred Gains/(Losses)	6.7	(11.6)	—	(4.9)	(0.8) ⁽¹⁾
Reclassification Adjustment for (Gains)/Losses Included in Net Earnings	—	(5.5)	—	(5.5)	—
Tax Benefit/(Expense)	0.2	3.8	—	4.0	—
Balance as of March 31, 2016	<u>\$ (322.9)</u>	<u>\$ (30.5)</u>	<u>\$ (0.8)</u>	<u>\$ (354.2)</u>	<u>\$ (13.5)</u>

⁽¹⁾ Represents foreign currency translation adjustments.

Reclassification adjustments out of *accumulated other comprehensive loss* were as follows:

(Dollars in millions)	Three Months Ended March 31,					
	Affected Statement of Earnings Lines					
	Cost of Products Sold		Tax Benefit/(Expense)		Net	
	2017	2016	2017	2016	2017	2016
Deferred Gains/(Losses) on Derivatives Qualifying as Hedges:						
Forward Exchange Contracts	\$ 3.0	\$ 6.3	\$ (0.1)	\$ (0.6)	\$ 2.9	\$ 5.7
Commodity Contracts	(0.2)	(0.4)	0.1	0.2	(0.1)	(0.2)
Interest Rate Forward Swap	(0.4)	(0.4)	0.1	0.1	(0.3)	(0.3)
Total Reclassifications	<u>\$ 2.4</u>	<u>\$ 5.5</u>	<u>\$ 0.1</u>	<u>\$ (0.3)</u>	<u>\$ 2.5</u>	<u>\$ 5.2</u>

17. VENEZUELA MATTERS

Discussion of Venezuela Exchange Rates

In January 2014, the Venezuelan government enacted changes affecting the country's currency exchange and other controls, and established a new foreign currency administration, the National Center for Foreign Commerce ("CENCOEX").

assumed control of the sale and purchase of foreign currency in Venezuela, and established the official exchange rate (“Official Rate”) of 6.3 Bolivares Fuertes (“VEF”) to 1.0 U.S. dollar (“USD”). Additionally, the government expanded the types of transactions that may be subject to the weekly auction mechanism under the Complimentary Currency Administration System (“SICAD I”). For a period of time, the Venezuelan government announced plans for the Alternative Foreign Exchange System, also known as SICAD II, which was intended to more closely resemble a market-driven exchange.

In February 2015, the Venezuelan government combined the SICAD I and SICAD II (“SICAD”) exchange rate mechanisms and created a new market based SIMADI rate, which was based on supply and demand. The changes created a three tiered system. As of December 31, 2015, CENCOEX traded at 6.3 VEF to 1.0 USD, the SICAD auction markets traded at 13.5 VEF to 1.0 USD and the SIMADI traded at 198.7 VEF to 1.0 USD.

In March 2016, the Venezuelan government devalued its currency and reduced its existing three tiered system to a two tiered system by eliminating the intermediary SICAD rate. The CENCOEX Official Rate, which continues to be used for purchases of certain essential goods, was changed to 10.0 VEF to 1.0 USD and is now referred to as DIPRO. Additionally, the SIMADI rate was replaced by a new market based rate known as DICOM, which governs all transactions not covered by DIPRO. The VEF as measured at the DICOM rate has continued to devalue against the USD throughout 2016 and 2017.

The rates were as follows:

(VEF to 1.0 USD)	March 31, 2017	December 31, 2016	March 31, 2016
DIPRO	10.0	10.0	10.0
DICOM	709.7	673.8	272.9

Effect on the Company’s Results

Due to the elimination of the SICAD rate in March 2016, the Company adopted the DICOM rate for purposes of remeasuring the monetary assets and liabilities of its Venezuela subsidiary effective March 10, 2016 because the Company believes the DICOM rate would now be used to settle future intercompany dividend remittances. The remeasurement impact of this adoption was a loss of \$32.3 million, recognized during the first quarter of 2016 as a component of *other (income)/expenses - net*. For the three months ended March 31, 2017, the impact of foreign currency was negligible.

As a result of the change in the Venezuelan exchange rates, the Company concluded that an impairment indicator existed at March 31, 2016 and evaluated the carrying value of the long-lived assets of its Venezuelan subsidiary for impairment, which includes administrative office space, land and a partially completed distribution warehouse facility. Based on this evaluation, the Company concluded that the carrying value of the long-lived assets was no longer recoverable and recorded an impairment charge of \$45.9 million to write down the carrying value of the assets to their fair value, which was recognized during the three months ended March 31, 2016 as a component of *other (income)/expenses - net*. The fair value measurements were based on market quotes from local real estate broker service firms as well as internal assessments of the best information available about the local business conditions and the political environment, including the risks associated with the local currency that would be indicative of what the assets could be sold for and are considered to be Level 3 measurements.

Net sales in the Venezuelan subsidiary were negligible as a percent of total Company net sales for the three months ended March 31, 2017. In addition, the Venezuelan subsidiary’s earnings were not a material component of MJN’s consolidated results during the three months ended March 31, 2017.

Remaining Asset Exposures

The Venezuelan subsidiary had net monetary assets and net non-monetary assets that were negligible individually and in aggregate to the Company’s total net assets as of March 31, 2017.

18. COMMITMENTS AND CONTINGENCIES

Commitments and Contingencies

In the ordinary course of business, the Company is subject to lawsuits, investigations, government inquiries and claims, including, but not limited to, product liability claims, advertising disputes and inquiries, consumer fraud suits, other commercial disputes, premises claims and employment and environmental, health, and safety matters.

The Company records accruals for contingencies when it is probable that a liability will be incurred and the loss can be reasonably estimated. Although the Company cannot predict with certainty the final resolution of lawsuits, investigations and claims asserted against the Company, MJN does not believe any currently pending legal proceeding to which the Company is a party will have a material impact on the Company's business or financial condition, results of operations or cash flows.

Litigation Related to the Merger

See “—Note 19. Mergers and Acquisitions” for information and definitions regarding the Company's pending transaction with Reckitt Benckiser Group plc (“Reckitt Benckiser”).

On February 14, 2017, a stockholder of the Company filed a purported stockholder class action lawsuit in Cook County, Illinois, captioned *Kirkham v. Altschuler, et al.*, 2017-CH-02109. The defendants are the Company, the individual members of the board of directors, Reckitt Benckiser and Marigold Merger Sub, Inc., a wholly owned indirect subsidiary of Reckitt Benckiser (“Merger Sub”). The lawsuit alleges that the Company's board of directors violated their fiduciary duties and that the Company, Reckitt Benckiser and Merger Sub aided and abetted such breaches, in each case in connection with the transactions contemplated by the Merger Agreement (as defined below). The lawsuit seeks, among other things, to enjoin consummation of the Merger (as defined below). On March 28, 2017, the plaintiff stockholder filed an amended complaint. In addition to the allegations of the original complaint, the amended complaint further alleges that the defendants failed to disclose certain information in the preliminary proxy statement, filed with the SEC on March 13, 2017. The plaintiff alleges that this omitted information is material for stockholders to vote on the Merger. The amended complaint alleges the same causes of actions against the same defendants and seeks the same relief as did the original complaint. The Company and its directors intend to vigorously defend against the allegations in the complaint.

On March 21, 2017, a stockholder of the Company filed a purported stockholder class action lawsuit in the United States District Court for the District of Delaware, captioned *Steinberg v. Mead Johnson Nutrition Company, et al.*, 1:17-cv-00304. The defendants are the Company, the individual members of the board of directors, Reckitt Benckiser and Merger Sub. The lawsuit alleges that the Company's preliminary proxy statement, filed with the SEC on March 13, 2017, is false and misleading with respect to the Merger and thus the Company and the individual defendants violated Section 14(a) of the Securities Exchange Act of 1934 as well as SEC Rule 14a-9 and Reckitt Benckiser and the individual defendants violated Section 20(a) of the Securities Exchange Act of 1934. The lawsuit seeks, among other things, to enjoin consummation of the Merger. The Company and its directors intend to vigorously defend against the allegations in the complaint.

On March 27, 2017, a stockholder of the Company filed a purported stockholder class action lawsuit in the United States District Court for the District of Delaware, captioned *Rubin v. Mead Johnson Nutrition Company, et al.*, 1:17-cv-00325. The defendants are the Company, the individual members of the board of directors, Reckitt Benckiser and Merger Sub. The lawsuit alleges that the Company's preliminary proxy statement, filed with the SEC on March 13, 2017, is false and misleading with respect to the Merger and thus all defendants violated Section 14(a) of the Securities Exchange Act of 1934 as well as SEC Rule 14a-9 and the individual defendants violated Section 20(a) of the Securities Exchange Act of 1934. The lawsuit seeks, among other things, to enjoin consummation of the Merger. The Company and its directors intend to vigorously defend against the allegations in the complaint.

On March 27, 2017, a stockholder of the Company filed a purported stockholder class action lawsuit in the United States District Court for the District of Delaware, captioned *Solak v. Mead Johnson Nutrition Company, et al.*, 1:17-cv-00325. The defendants are the Company, the individual members of the board of directors, Reckitt Benckiser and Merger Sub. The lawsuit alleges that the Company's preliminary proxy statement, filed with the SEC on March 13, 2017, is false and misleading with respect to the Merger and thus the Company and the individual defendants violated Section 14(a) of the Securities Exchange Act of 1934 as well as SEC Rule 14a-9 and all defendants violated Section 20(a) of the Securities Exchange Act of 1934. The lawsuit seeks, among other things, to enjoin consummation of the Merger. The Company and its directors intend to vigorously defend against the allegations in the complaint.

On March 30, 2017, a stockholder of the Company filed a purported stockholder class action lawsuit in the United States District Court for the District of Delaware, captioned *Walters v. Mead Johnson Nutrition Company, et al.*, 1:17-cv-00344. The defendants are the Company and the individual members of the board of directors. The lawsuit alleges that the Company's preliminary proxy statement, filed with the SEC on March 13, 2017, is false and misleading with respect to the Merger and thus all defendants violated Section 14(a) of the Securities Exchange Act of 1934 and the individual defendants violated Section 20(a) of the Securities Exchange Act of 1934. The lawsuit seeks, among other things, to enjoin consummation of the Merger. The Company and its directors intend to vigorously defend against the allegations in the complaint.

19. MERGERS AND ACQUISITIONS

Merger Agreement

On February 10, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Reckitt Benckiser and Merger Sub, pursuant to which Reckitt Benckiser will indirectly acquire the Company by means of a merger of Merger Sub with and into the Company on the terms and subject to the conditions set forth in the Merger Agreement (the “Merger”). The Merger Agreement and the consummation of the transactions contemplated by the Merger Agreement have been unanimously approved by the Company’s board of directors.

At the effective time of the Merger (the “Effective Time”), on the terms and subject to the conditions set forth in the Merger Agreement, each share of the Company’s common stock outstanding immediately prior to the Effective Time (other than (i) each share held by the Company as treasury stock (other than shares held for the account of clients, customers or other persons), (ii) each share held by Reckitt Benckiser or by any subsidiary of either the Company or Reckitt Benckiser and (iii) each share held by a holder who has not voted in favor of the Merger or consented thereto in writing and who has demanded appraisal for such shares in accordance with Delaware law) will be converted into the right to receive \$90.00 in cash, without interest.

Consummation of the Merger is subject to the satisfaction or waiver of certain customary closing conditions, including, among others: (i) the affirmative vote of the holders of a majority of the Company’s outstanding shares of common stock; (ii) the affirmative vote of a simple majority of Reckitt Benckiser’s shareholders at a shareholder meeting; (iii) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (“HSR”), and the receipt of certain other non-United States regulatory approvals required to consummate the Merger; and (iv) in the case of Reckitt Benckiser’s obligations to consummate the Merger, the absence of a Company Material Adverse Effect (as defined in the Merger Agreement). Reckitt Benckiser and Merger Sub’s respective obligations to consummate the Merger are not subject to any financing condition or other contingency. With regard to subsection (iii) of the foregoing sentence, the Company received early termination of the HSR waiting period effective as of March 24, 2017.

Australian Asset Acquisition

On February 27, 2017, the Company announced that it has reached an agreement to acquire assets from Bega Cheese Limited (“Bega”). In connection with this transaction, the Company is acquiring from Bega a spray dryer and a finishing plant in Australia and will enter into service agreements to support the operation of those assets. The aggregate consideration for the asset purchase was approximately AUD \$200 million for which the Company deposited \$153.8 million into an escrow account held by a third-party in anticipation of funding this transaction. At March 31, 2017 that escrow account translated to \$152.5 million and was included in restricted cash as the funds were to be disbursed to Bega when certain conditions have been satisfied by both parties. The asset purchase was completed on April 24, 2017. In accordance with the relevant transaction documents, Bega received AUD \$180 million (USD \$136.1 million) on completion and will receive the remaining AUD \$20 million balance of the purchase price on or before December 31, 2017.