REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Mead Johnson Nutrition Company
Glenview, Illinois

We have audited the accompanying consolidated balance sheets of Mead Johnson Nutrition Company and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income, equity/(deficit) and redeemable noncontrolling interest, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mead Johnson Nutrition Company and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2017 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
February 27, 2017

CONSOLIDATED FINANCIAL STATEMENTS
OF MEAD JOHNSON NUTRITION COMPANY

CONSOLIDATED STATEMENTS OF EARNINGS
(Dollars and shares in millions, except per share data)

	Years Ended December 31,		
	2016	2015	2014
NET SALES	$ 3,742.7	$ 4,071.3	$ 4,409.3
Cost of Products Sold	1,341.0	1,455.3	1,700.6
GROSS PROFIT	2,401.7	2,616.0	2,708.7
Operating Expenses:			
Selling, General and Administrative	766.5	890.6	978.9
Advertising and Promotion	627.0	641.8	638.7
Research and Development	97.4	108.4	115.1
Other (Income)/Expenses – net	92.1	39.0	(12.3)
EARNINGS BEFORE INTEREST AND INCOME TAXES	818.7	936.2	988.3
Interest Expense – net	105.4	65.0	60.3
EARNINGS BEFORE INCOME TAXES	713.3	871.2	928.0
Provision for Income Taxes	164.0	215.9	199.2
NET EARNINGS	549.3	655.3	728.8
Less: Net Earnings Attributable to Noncontrolling Interests	4.4	1.8	9.0
NET EARNINGS ATTRIBUTABLE TO SHAREHOLDERS	$ 544.9	$ 653.5	$ 719.8
Earnings per Share – Basic			
Net Earnings Attributable to Shareholders	$ 2.93	$ 3.28	$ 3.55
Earnings per Share – Diluted			
Net Earnings Attributable to Shareholders	$ 2.92	$ 3.27	$ 3.54
Weighted-average Shares - Basic	185.5	199.0	202.1
Weighted-average Shares - Diluted	185.8	199.4	202.7
Dividends Declared per Share	$ 1.65	$ 1.65	$ 1.50

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

MEAD JOHNSON NUTRITION COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)

	Years Ended December 31,		
	2016	**2015**	**2014**
NET EARNINGS	$ 549.3	$ 655.3	$ 728.8
OTHER COMPREHENSIVE LOSS			
Foreign Currency Translation Adjustments			
Translation Adjustments	(69.6)	(143.4)	(104.8)
Tax Effect on Foreign Currency Translation Adjustments	3.9	1.0	0.8
Deferred Gains/(Losses) on Derivatives Qualifying as Hedges			
Deferred Gains/(Losses) on Derivatives Qualifying as Hedges for the Period	7.7	19.7	(52.9)
Reclassification Adjustment for (Gains)/Losses Included in Net Earnings	(4.6)	(20.6)	(1.2)
Tax Effect on Deferred Gains/(Losses) on Derivatives Qualifying as Hedges	(1.5)	1.5	20.9
Pension and Other Post-Employment Benefits			
Deferred Gains/(Losses) on Pension and Other Post-Employment Benefits	—	(0.2)	—
Reclassification Adjustment for (Gains)/Losses Included in Net Earnings	—	0.1	0.3
OTHER COMPREHENSIVE LOSS	(64.1)	(141.9)	(136.9)
COMPREHENSIVE INCOME	485.2	513.4	591.9
Less Comprehensive Income/(Loss) Attributable to Noncontrolling Interests	3.9	9.4	1.8
COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS	$ 481.3	$ 504.0	$ 590.1

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

MEAD JOHNSON NUTRITION COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars and shares in millions, except per share data)

	December 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 1,795.4	$ 1,701.4
Receivables—net of allowances of $4.4 and $5.4, respectively	369.0	342.5
Inventories	473.5	484.9
Income Taxes Receivable	8.3	13.2
Prepaid Expenses and Other Assets	60.4	60.4
Total Current Assets	2,706.6	2,602.4
Property, Plant and Equipment – net	948.6	964.0
Goodwill	108.9	126.0
Other Intangible Assets – net	46.0	54.9
Deferred Income Taxes – net of valuation allowance	143.1	118.5
Other Assets	134.5	132.3
TOTAL	$ 4,087.7	$ 3,998.1
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-Term Borrowings	$ 3.9	$ 3.0
Accounts Payable	515.8	481.5
Dividends Payable	76.0	77.8
Accrued Expenses	194.7	213.0
Accrued Rebates and Returns	417.4	376.8
Deferred Income	12.4	35.5
Income Taxes Payable	24.0	65.7
Total Current Liabilities	1,244.2	1,253.3
Long-Term Debt	2,976.2	2,981.0
Deferred Income Taxes	6.2	8.7
Pension and Other Post-employment Liabilities	104.2	132.4
Other Liabilities	229.0	215.2
Total Liabilities	4,559.8	4,590.6
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Shareholders' Equity		
Common Stock, $0.01 par value: 3,000 authorized, 188.3 and 191.4 issued, respectively	1.9	1.9
Additional Paid-in/(Distributed) Capital	(514.0)	(564.2)
Retained Earnings	773.4	640.4
Treasury Stock – at cost	(362.6)	(362.6)
Accumulated Other Comprehensive Loss	(411.4)	(347.8)
Total Shareholders' Equity/(Deficit)	(512.7)	(632.3)
Noncontrolling Interests	40.6	39.8
Total Equity/(Deficit)	(472.1)	(592.5)
TOTAL	$ 4,087.7	$ 3,998.1

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

MEAD JOHNSON NUTRITION COMPANY
CONSOLIDATED STATEMENTS OF EQUITY/(DEFICIT) AND REDEEMABLE NONCONTROLLING INTEREST
(Dollars in millions)

	Common Stock	Additional Paid-in (Distributed) Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity/ (Deficit)	Redeemable Non-controlling Interest
Balance as of January 1, 2014	$ 2.1	$ (721.5)	$ 1,432.3	$ (351.9)	$ (69.2)	$ 8.7	$ 300.5	$ 49.7
Stock-based Compensation Awards (includes excess tax benefits of $9.0)	—	76.3	—	(7.9)	—	—	68.4	—
Repurchase of Common Stock	—	—	—	(52.9)	—	—	(52.9)	—
Retirement of Treasury Stock	—	—	(50.1)	50.1	—	—	—	—
Distributions to Noncontrolling Interests	—	—	—	—	—	(7.7)	(7.7)	—
Cash Dividends Declared ($1.50 per share)	—	—	(304.0)	—	—	—	(304.0)	—
Net Earnings	—	—	719.8	—	—	8.5	728.3	0.5
Redeemable Noncontrolling Interest Accretion	—	—	(23.0)	—	—	—	(23.0)	23.0
Other Comprehensive Income (Loss)	—	—	—	—	(129.7)	—	(129.7)	(7.2)
Other	—	3.9	—	—	—	—	3.9	—
Balance as of December 31, 2014	$ 2.1	$ (641.3)	$ 1,775.0	$ (362.6)	$ (198.9)	$ 9.5	$ 583.8	$ 66.0
Stock-based Compensation Awards (includes excess tax benefits of $5.5)	—	51.6	(11.4)	—	—	—	40.2	—
Repurchase of Common Stock	—	—	—	(437.0)	—	—	(437.0)	—
Retirement of Repurchased Shares	(0.2)	—	(1,436.8)	437.0	—	—	(1,000.0)	—
Distributions to Noncontrolling Interests	—	—	—	—	—	(7.1)	(7.1)	(0.8)
Cash Dividends Declared ($1.65 per share)	—	—	(327.1)	—	—	—	(327.1)	—
Net Earnings	—	—	653.5	—	—	1.3	654.8	0.5
Redeemable Noncontrolling Interest Accretion	—	—	(12.8)	—	—	—	(12.8)	12.8
Other Comprehensive Income (Loss)	—	—	—	—	(138.1)	(2.5)	(140.6)	(1.3)
Acquisition of Redeemable Noncontrolling Interest	—	25.5	—	—	(10.8)	38.6	53.3	$ (77.2)
Balance as of December 31, 2015	$ 1.9	$ (564.2)	$ 640.4	$ (362.6)	$ (347.8)	$ 39.8	$ (592.5)	$ —
Stock-based Compensation Awards (includes excess tax benefits of $0.1)	—	50.2	(4.4)	—	—	—	45.8	—
Repurchase and Retirement of Common Stock	—	—	(100.4)	—	—	—	(100.4)	—
Distributions to Noncontrolling Interests	—	—	—	—	—	(3.1)	(3.1)	—
Cash Dividends Declared ($1.65 per share)	—	—	(307.1)	—	—	—	(307.1)	—
Net Earnings	—	—	544.9	—	—	4.4	549.3	—
Other Comprehensive Income (Loss)	—	—	—	—	(63.6)	(0.5)	(64.1)	—
Balance as of December 31, 2016	$ 1.9	$ (514.0)	$ 773.4	$ (362.6)	$ (411.4)	$ 40.6	$ (472.1)	$ —

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

MEAD JOHNSON NUTRITION COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Years Ended December 31,		
	2016	**2015**	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Earnings	$ 549.3	$ 655.3	$ 728.8
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	99.6	99.1	91.6
Stock-Based Compensation Expense	34.6	26.4	30.4
Deferred Income Taxes	(53.3)	43.3	(15.0)
Exchange Loss from Devaluation	31.7	2.3	6.1
Mark-to-market on Trading Security	—	(5.6)	—
Pension and Other Post-employment Benefits Expense	(7.4)	12.8	59.1
Impairment of Long-Lived Assets	45.9	—	—
Other	(3.6)	(1.4)	(3.4)
Change in Assets and Liabilities:			
Receivables	(42.0)	10.4	(36.5)
Inventories	(8.9)	25.8	(47.0)
Accounts Payable	52.5	3.7	2.8
Accrued Expenses, Rebates and Returns	47.0	73.8	12.9
Income Taxes Payable	(40.7)	15.3	5.3
Other Assets and Liabilities	6.2	38.8	8.5
Payments for Settlement of Interest Rate Forward Swaps	—	—	(45.0)
Pension and Other Post-employment Benefits Contributions	(19.3)	(90.1)	(5.2)
Net Cash Provided by Operating Activities	691.6	909.9	793.4
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for Capital Expenditures	(149.0)	(173.7)	(186.6)
Proceeds from Sale of Property, Plant and Equipment	0.3	0.5	0.2
Proceeds from/(Investment in) Other Companies	—	—	4.0
Net Cash Used in Investing Activities	(148.7)	(173.2)	(182.4)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Short-term Borrowings	1.6	1,003.0	3.2
Repayments of Short-term Borrowings	(0.3)	(1,002.9)	(0.6)
Proceeds from Issuance of Long-term Notes, net of original issue discounts and expenses paid	(0.1)	1,487.7	492.0
Repayments of Notes Payable	—	—	(500.0)
Proceeds from Long-term Revolver Borrowings	—	446.0	—
Repayment of Long-term Revolver Borrowings	—	(446.0)	—
Payments of Dividends	(308.8)	(326.0)	(296.6)
Stock-based Compensation related Proceeds and Excess Tax Benefits	15.9	25.4	46.2
Stock-based Compensation Tax Withholdings	(4.4)	(11.4)	(7.9)
Payments for Repurchase of Common Stock	(100.4)	(1,437.0)	(54.1)
Purchase of Noncontrolling Interest Redeemable Shares	—	(24.2)	—
Purchase of Trading Securities	—	(16.2)	—
Sale of Trading Securities	—	21.7	—
Distributions to Noncontrolling Interests	(3.1)	(6.9)	(7.7)
Net Cash Used in Financing Activities	(399.6)	(286.8)	(325.5)
Effects of Changes in Exchange Rates on Cash and Cash Equivalents	(49.3)	(46.2)	(38.6)
NET INCREASE IN CASH AND CASH EQUIVALENTS	94.0	403.7	246.9
CASH AND CASH EQUIVALENTS:			
Beginning of Period	1,701.4	1,297.7	1,050.8
End of Period	$ 1,795.4	$ 1,701.4	$ 1,297.7

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

MEAD JOHNSON NUTRITION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2016 AND 2015 AND FOR THE YEARS ENDED
DECEMBER 31, 2016, 2015 AND 2014

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 financial statements present the results of operations, financial position and cash flows of the Company and its majority-owned and controlled subsidiaries. Inter-company balances and transactions have been eliminated. The Company prepared the accompanying consolidated financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). These financial statements consider subsequent events through the date of filing with the Securities and Exchange Commission.

Use of Estimates—The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts and accompanying disclosures. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Significant estimates include sales rebates and return accruals, impairment testing of goodwill and indefinite-lived intangible assets, impairment of long-lived assets, deferred tax assets and liabilities and income tax expense, as well as the accounting for stock-based compensation and retirement and post-employment benefits, including the actuarial assumptions. Actual results may or may not differ from estimated results.

Fair Value Measurements—The fair value of financial assets and liabilities are classified in the fair value hierarchy as follows: Level 1— unadjusted quoted prices in active markets for identical assets or liabilities, Level 2—observable prices that are based on inputs not quoted on active markets and Level 3—unobservable inputs that reflect estimates about the assumptions market participants would use in pricing the asset or liability.

Revenue Recognition—MJN recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured. Revenue is not recognized until title and risks of loss have transferred to the customer. The shipping terms for the majority of revenue arrangements are FOB destination. Provisions are estimated at the time of revenue recognition for returns and Women, Infants and Children ("WIC") rebates based on historical experience, updated for changes in facts and circumstances, as appropriate. Such provisions are recorded as a reduction of revenue. The Company offers sales incentives to customers and consumers through various programs consisting primarily of sales discounts, trade promotional support and consumer coupons. Provisions are estimated for these sales incentives at the later of the date at which the Company has sold the product or the date at which the program is offered, based on historical experience, updated for changes in facts and circumstances, as appropriate. Such provisions are recorded as a reduction of revenue. Revenue is recorded net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

WIC rebate accruals were $212.5 million and $205.1 million at December 31, 2016 and 2015, respectively, and are included in *accrued rebates and returns* on the Company's balance sheet. The Company participates on a competitive bidding basis in nutrition programs sponsored by states, tribal governments, the Commonwealth of Puerto Rico, and U.S. territories for WIC. Under these programs, the Company reimburses these entities for the difference between the list price and the contract price on eligible products. The Company accounts for WIC rebates by establishing an accrual in an amount equal to the Company's estimate of WIC rebate claims attributable to a sale. The Company determines its estimate of the WIC rebate accrual primarily based on historical experience regarding WIC rebates and current contract prices under the WIC programs. The Company considers levels of inventory in the distribution channel, new WIC contracts, terminated WIC contracts, changes in existing WIC contracts and WIC participation, and adjusts the accrual periodically throughout the year to reflect actual expense. Rebates under the WIC program reduced revenues by $751.5 million, $763.0 million, and $790.0 million in the years ended December 31, 2016, 2015, and 2014, respectively.

Sales return accruals were $57.1 million and $52.6 million at December 31, 2016 and 2015, respectively, and are included in *accrued rebates and returns* on the Company's balance sheet. The Company accounts for sales returns by establishing an accrual in an amount equal to its estimate of sales recorded for which the related products are expected to be returned. The Company determines its estimate of the sales return accrual primarily based on historical experience regarding sales returns, but also considers other factors that could impact sales returns such as discontinuations and new product introductions. Returns reduced sales by $94.2 million, $89.8 million, and $86.1 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Income Taxes—The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable earnings in effect for the years in which those tax attributes are expected to be recovered or paid, and are adjusted for changes in tax rates and tax laws when changes are enacted. The ultimate liability incurred by the Company may differ from the provision estimates based on a number of factors, including interpretations of tax laws and the resolution of examinations by the taxing authorities. United States federal income taxes are provided on foreign earnings that are not permanently invested offshore.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The assessment of whether or not a valuation allowance is required often requires significant judgment including the long-range forecast of future taxable earnings and the evaluation of tax planning initiatives. Adjustments to the deferred tax valuation allowances are made to earnings in the period when such assessments are made.

Uncertain tax positions that relate to deferred tax assets are recorded against deferred tax assets; otherwise, uncertain tax positions are recorded as either a current or noncurrent liability.

Cash and Cash Equivalents—Cash and cash equivalents consist of bank deposits, time deposits and money market funds. The Company maintains cash and cash equivalent balances in U.S. dollars and foreign currencies, which are subject to currency rate risk. Cash equivalents are primarily highly liquid investments with original maturities of 3 months or less at the time of purchase and are recorded at cost, which approximates fair value. Money market funds, which are all incorporated or domiciled outside the U.S., are not subject to the enactment of daily floating net asset value calculation, liquidity fees or redemption gates and continue to meet the classification of cash and cash equivalents. Money market funds totaled $1,022.0 million and $510.1 million at December 31, 2016 and 2015, respectively, are classified as Level 2 in the fair value hierarchy.

Inventory Valuation—Inventories are valued at the lower of cost or market. The Company determines cost on the basis of the average cost or first-in, first-out methods.

Property, Plant and Equipment—Expenditures for additions and improvements, including capitalized interest, are recorded at cost. Depreciation is computed on a straight-line method based on the estimated useful lives of the related assets. The estimated useful lives of the major classes of depreciable assets are up to 50 years for buildings and 3 to 40 years for machinery, equipment and fixtures. Maintenance and repair costs are expensed as incurred.

Capitalized Software—Certain costs to obtain internal-use software for significant systems projects are reflected in *Other Intangible Assets - Net*, and are amortized on a straight-line basis over the estimated useful life of the software, which ranges from 3 to 7 years. Costs to obtain software for projects that are not significant are expensed as incurred.

Impairment of Long-Lived Assets—The Company periodically evaluates whether current facts or circumstances indicate that the carrying value of its depreciable assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured based on the difference between the asset's fair value and its carrying value. An estimate of the asset's fair value is based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows. The Company reports an asset to be disposed of at the lower of its cost less accumulated depreciation or its estimated net realizable value.

Goodwill and Other Intangible Assets—The Company's policy is to test goodwill for impairment on an annual basis or when current facts or circumstances indicate that a potential impairment may exist. Goodwill is tested for impairment at the reporting unit level. A reporting unit represents an operating segment or a component of an operating segment. Goodwill is tested for impairment by either performing a qualitative evaluation or a two-step quantitative test. The qualitative evaluation is an assessment of factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. The Company may elect not to perform the qualitative assessment for some or all reporting units and perform a two-step quantitative impairment test. The Company compares the carrying value of a reporting unit, including goodwill, to the fair value of the unit. If the carrying amount of a reporting unit exceeds its fair value, the Company revalues all assets and liabilities of the reporting unit, excluding goodwill, to determine if the fair value of the net assets is greater than the net assets including goodwill. If the fair value of the net assets is less than the carrying amount of net assets including *goodwill*, impairment has occurred. The Company's estimates of fair value are primarily determined based on a discounted cash flow model. Growth rates for sales and profits are determined using inputs from the Company's annual long-range planning process. The Company also makes estimates of discount rates, perpetuity growth assumptions, market comparables, and other factors. The Company completed its most recent annual goodwill impairment assessment during the third quarter of 2016. No impairment of goodwill was required in 2016, 2015 or 2014.

The Company evaluates the useful lives of its other intangible assets to determine if they are finite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures and the expected lives of other related groups of assets. Intangible assets that are deemed to have definite lives are amortized on a straight-line basis over their useful lives. Indefinite-lived intangible assets are tested for impairment at the reporting unit level. No impairment of indefinite-lived intangible assets was required in 2016, 2015 or 2014.

Contingencies—In the ordinary course of business, the Company is subject to loss contingencies such as 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 such loss contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company does not recognize gain contingencies until realized. Legal costs are expensed as incurred.

Derivatives—Derivatives are used by the Company principally in the management of its foreign currency, interest rate and commodity pricing exposures. The Company records all derivatives on the balance sheet at fair value. The Company does not hold or issue derivatives for speculative purposes.

The Company designates and assigns derivatives as hedges of forecasted transactions, specific assets or specific liabilities. When the hedged assets or liabilities are sold, extinguished or the forecasted transactions being hedged are no longer expected to occur, the Company immediately recognizes the gain or loss on the designated hedging financial instruments in the consolidated statements of earnings. The Company has elected to classify the cash flows from derivative instruments in the same category as the cash flows from the underlying hedged items.

If derivatives are designated as a cash flow hedge, the effective portion of changes in the fair value is temporarily reported in accumulated other comprehensive loss and is recognized in earnings when the hedged item affects earnings or is deemed ineffective; cash flows are classified consistent with the underlying hedged item. The Company assesses hedge 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. 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.

If derivatives are designated as a fair value hedge, both the changes in the fair value of the derivatives and of the hedged item attributable to the hedged risk are recognized in the consolidated statements of earnings; cash flows are classified consistent with the underlying hedged item.

Pension and Other Post-employment Benefits—The funded status of the Company's defined pension and other post-employment benefit plans is measured as the difference between the fair value of the plan assets and the benefit obligation. For the defined benefit plans, the benefit obligation is the projected benefit obligation; for any other defined benefit post-employment plans, the benefit obligation is the accumulated post-employment benefit obligation. The net over- or under-funded status is recognized as an asset or a liability on the balance sheet.

Changes in assets or liabilities are recognized in the consolidated statements of earnings upon plan remeasurement in the fourth quarter of each year, or more frequently if a remeasurement occurs. Certain of the Company's pension plans allow participants the option of settling their vested benefits through the receipt of a lump-sum payment. In the period in which lump-sum payments exceed annual service and interest costs, the Company applies settlement accounting and remeasures the pension obligation, with the resulting gain or loss being recognized immediately.

During 2015, the Company changed the method used to estimate the interest cost components of net periodic benefit cost for defined benefit pension and other post-retirement benefit plans. Historically, the interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the projected benefit obligation at the beginning of the period. The Company elected to use a full yield curve approach in the estimation of these components of benefit cost by applying the specific spot rates along the yield curve used in the determination of the projected benefit obligation to the relevant projected cash flows. The Company made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of interest costs. This change does not affect the measurement of total benefit obligations as the change in interest cost is completely offset in the actuarial loss reported in the period. The Company accounted for this change as a change in estimate and, accordingly, accounted for it prospectively starting in the third quarter of 2015. The reduction in interest cost for the year ended December 31, 2015 associated with this change in estimate was approximately $2.0 million.

Shipping and Handling Costs—The Company typically does not charge customers for shipping and handling costs. Shipping and handling costs, including warehousing expenses, were $99.6 million, $114.1 million, and $118.2 million in the years ended December 31, 2016, 2015, and 2014, respectively, and are included in *selling, general and administrative expenses*.

Advertising Costs—Advertising costs are expensed as incurred and were $223.8 million, $218.7 million, and $206.2 million in the years ended December 31, 2016, 2015, and 2014, respectively.

Research and Development—Research and development costs are expensed as incurred.

Stock-Based Compensation—Stock-based compensation expense for stock options is measured based on the estimated grant date fair value and recognized over the vesting period for options that are expected to vest. The Company estimates forfeitures at the time of grant based on historical experience, updated for changes in facts and circumstances, as appropriate, and in subsequent periods if actual forfeitures differ from those estimates. The Company uses the Black-Scholes option-pricing model to value stock options granted. The expected volatility assumption is calculated based principally on the Company's historical volatility, and to a lesser extent, on implied volatility from publicly-traded options on the Company's stock. The historical volatility is calculated over a period of time commensurate with the expected term of the options being valued. The risk-free interest rate assumption is based upon the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's expectation of dividend payouts. The Company has determined that it has enough historical option exercise information to be able to accurately compute an expected term for use as an assumption in the Black-Scholes option pricing model. As such, its computation of expected term was calculated using the Company's historical data.

The Company also grants shares of restricted stock units and performance awards. Restricted stock units generally vest on the third or fourth anniversary of the grant date, and are entitled to dividend equivalent payments during the vesting period. Performance share awards vest based on varying performance, market and service conditions.

Foreign Currency Translation—The statements of earnings of the Company's foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using average exchange rates for the period. The net assets of the Company's foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using exchange rates as of the balance sheet date. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded in the foreign currency translation adjustment account, which is included in *accumulated other comprehensive loss*.

Recently Adopted Accounting Standards—In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statement-Going Concern (Subtopic 205-40).* This update requires management to assess the Company's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The updated standard was effective for the Company in the annual period ending December 31, 2016. The adoption of this updated standard did not have an impact on the consolidated financial statements.

Recently Issued Accounting Standards—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 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 Company has evaluated the effect that the updated standard will have on its consolidated financial statements and related disclosures. The Company will recognize excess tax benefits within the consolidated statements of earnings. As this amount is currently recorded as a reduction to additional paid-in capital, this could potentially cause volatility in the Company's earnings and calculation of effective tax rate going forward when employees exercise options and when stock units become vested. The Company will record the excess tax benefit within the operating activities in the statement of cash flows. These amendments will be adopted prospectively with no adjustment to prior periods required. Additionally, the Company will continue to present 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. The updated standard is effective for fiscal years beginning after December 15, 2016, with early adoption permitted.

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 Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

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 currently requires an entity to measure inventory at the lower of cost or market. Previously, market could be replacement cost, net realizable value or net realizable value less an approximate normal profit margin. Under the new standard, inventory should be valued at the lower of cost or net realizable value. The updated standard is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company has evaluated the effect that the updated standard will have on its consolidated financial statements and related disclosures. The updated standard will be adopted prospectively. Given the Company has not experienced markdowns of inventory due to lower of cost or market considerations, the impact of implementing the updated standard is not expected to be material.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* In 2016, the FASB issued ASU 2016-08, ASU 2016-10 and ASU 2016-12 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. 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 number of shares outstanding during the period. The denominator for diluted earnings per share is the weighted-average 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:

(In millions, except per share data)	Years Ended December 31, 2016	2015	2014
Basic earnings per share:			
Weighted-average shares outstanding	185.5	199.0	202.1
Net earnings attributable to shareholders	$ 544.9	$ 653.5	$ 719.8
Dividends and undistributed earnings attributable to unvested shares	(2.2)	(1.7)	(1.3)
Net earnings attributable to shareholders used for basic earnings per share calculation	$ 542.7	$ 651.8	$ 718.5
Net earnings attributable to shareholders per share	$ 2.93	$ 3.28	$ 3.55
Diluted earnings per share:			
Weighted-average shares outstanding	185.5	199.0	202.1
Incremental shares outstanding assuming the exercise/vesting of dilutive stock options/performance shares	0.3	0.4	0.6
Weighted-average shares—diluted	185.8	199.4	202.7
Net earnings attributable to shareholders	$ 544.9	$ 653.5	$ 719.8
Dividends and undistributed earnings attributable to unvested shares	(2.2)	(1.7)	(1.3)
Net earnings attributable to shareholders used for diluted earnings per share calculation	$ 542.7	$ 651.8	$ 718.5
Net earnings attributable to shareholders per share	$ 2.92	$ 3.27	$ 3.54

Potential shares outstanding from all stock-based awards were 3.4 million, 2.5 million and 2.5 million as of December 31, 2016, 2015 and 2014, respectively, of which 3.1 million, 2.1 million and 1.9 million were not included in the diluted earnings per share calculation for the years ended December 31, 2016, 2015 and 2014, respectively.

4. INCOME TAXES

The components of *earnings before income taxes* were:

(Dollars in millions)	Years Ended December 31, 2016	2015	2014
U.S.	$ 204.4	$ 183.6	$ 92.6
Non-U.S.	508.9	687.6	835.4
Total	$ 713.3	$ 871.2	$ 928.0

The above amounts are categorized based on the applicable taxing authorities.

The provision/(benefit) for income taxes consisted of:

(Dollars in millions)	Years Ended December 31, 2016	2015	2014
Current:			
U.S. federal	$ 77.4	$ 39.8	$ 53.7
U.S. states	7.7	2.7	4.2
Non-U.S.	132.2	130.1	156.3
Total current income tax expense	217.3	172.6	214.2
Deferred:			
U.S. federal	(34.2)	44.2	(6.9)
U.S. states	(1.6)	3.3	(1.3)
Non-U.S.	(17.5)	(4.2)	(6.8)
Total deferred income tax expense/(benefit)	(53.3)	43.3	(15.0)
Total	$ 164.0	$ 215.9	$ 199.2

Effective Tax Rate—MJN's *provision for income taxes* in the years ended December 31, 2016, 2015 and 2014 was different from the amount computed by applying the statutory U.S. federal income tax rate to earnings before income taxes as a result of the following:

(Dollars in millions)	2016		2015		2014	
U.S. statutory rate	$ 249.7	35.0 %	$ 304.9	35.0 %	$ 324.8	35.0 %
U.S. state and local taxes (net of federal benefit)	2.9	0.4	4.5	0.5	0.6	0.1
Foreign income taxed at different rates	(22.3)	(3.1)	(36.6)	(4.2)	(32.0)	(3.4)
Repatriation of foreign income	(34.6)	(4.9)	2.2	0.3	—	—
Tax rulings and agreements	(93.7)	(13.1)	(92.8)	(10.6)	(133.7)	(14.4)
Changes in valuation allowances	31.1	4.4	2.2	0.3	0.4	—
Unrecognized tax benefits and related interest/penalties	35.0	4.9	21.7	2.5	22.9	2.5
Other	(4.1)	(0.6)	9.8	1.0	16.2	1.7
Total provision/effective tax rate	$ 164.0	23.0 %	$ 215.9	24.8 %	$ 199.2	21.5 %

The Company negotiated a tax ruling effective from January 1, 2010, under which certain profits in the Netherlands are exempt from taxation through the year ending December 31, 2019. This ruling was superseded by a subsequent tax agreement effective July 26, 2012, whereby the Company and the Dutch tax authorities 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 effective from January 1, 2013, under which certain profits in Singapore are eligible for favorable taxation through the year ending December 31, 2027.

Deferred Taxes and Valuation Allowance—The components of deferred income tax assets/(liabilities) were:

	December 31,	
(Dollars in millions)	2016	2015
Deferred tax assets:		
Accrued expenses	30.9	25.2
Accrued rebates and returns	45.2	43.2
Pension and other post-employment liabilities	35.0	47.6
Stock-based compensation	22.1	18.2
Obsolescence reserves and other inventory items	20.9	11.6
Net operating loss carryforwards	15.7	16.3
Settlement loss on interest rate forward swaps	15.1	15.6
Statutory loss on investment in subsidiaries	10.5	6.6
State tax credit carryforwards	9.4	8.8
Intercompany payable write-off	12.5	—
Cumulative foreign currency translation adjustments	4.5	—
Other—net	9.7	4.9
Valuation allowance	(37.6)	(14.8)
Total deferred tax assets	193.9	183.2
Deferred tax liabilities:		
Depreciation and amortization	(57.0)	(68.0)
Unremitted earnings and cumulative foreign currency translation adjustments	—	(5.4)
Total deferred tax liabilities	(57.0)	(73.4)
Deferred tax assets—net	136.9	109.8
Recognized as:		
Net deferred income tax assets—noncurrent	143.1	118.5
Net deferred income tax liabilities—noncurrent	(6.2)	(8.7)
Total	136.9	109.8

During the year ended December 31, 2016 the Company wrote-off a $52.0 million intercompany payable from its Venezuelan subsidiary to its subsidiaries in Mexico and the U.S. (see "—Note 20. Venezuela Currency Matters" for additional information). As a result of this write-off, Mexico and the U.S. realized losses that are either currently tax deductible or tax deductible in the future. A deferred tax asset of $12.5 million has been recorded to reflect the portion of the losses that are deductible in the future.

As of December 31, 2016, the Company had definite-lived and indefinite-lived gross foreign net operating loss ("NOL") carryforwards of $50.8 million. Indefinite-lived NOL carryforwards totaled $44.2 million with the remainder being definite-lived. An immaterial amount of these definite-lived NOL carryforwards will begin to expire in 2017, with the remainder of the definite-lived NOL carryforwards to expire no later than 2020. The valuation allowance recorded for NOL carryforwards is $14.8 million as of December 31, 2016.

As of December 31, 2016, the Company had various definite-lived U.S. state tax credit carryforwards of $9.4 million, net of the federal tax benefit. An immaterial amount of these state tax credit carryforwards will begin to expire in 2017, with the remainder of the state tax credit carryforwards to expire no later than 2026. The valuation allowance recorded for state tax credit carryforwards is $6.0 million, net of the federal tax benefit, as of December 31, 2016.

As of December 31, 2016, the Company incurred a statutory loss on the investment in its Russian business of $42.1 million. This loss will be tax deductible in the Netherlands when the Russian entity is fully liquidated on a tax basis, and a deferred tax asset of $10.5 million has been recorded as of December 31, 2016. The Company expects to utilize $1.6 million of this deferred tax asset, and a valuation allowance of $8.9 million has been recorded for the remainder.

As of December 31, 2016, the Company incurred charges in the amount of $48.9 million related to long-lived asset impairments and other asset write-offs in its Venezuelan business (see "—Note 20. Venezuela Currency Matters" for additional information) for which the Company held a deferred tax asset of $7.9 million. The Company does not expect to utilize any amount of this deferred tax asset, and a full valuation allowance has been recorded.

Income taxes paid net of refunds were $219.3 million, $134.2 million, and $183.7 million in the years ended December 31, 2016, 2015 and 2014, respectively. The income taxes were paid to or received from federal, state and foreign taxing authorities and Bristol-Myers Squibb Company ("BMS") pursuant to the terms of the Amended and Restated Tax Matters Agreement, described below.

As of December 31, 2016, U.S. taxes have not been provided on approximately $2,500 million of foreign earnings as these undistributed earnings have been indefinitely invested offshore. If, in the future, these earnings were to be repatriated to the U.S. additional tax provisions would be required. It is impracticable to determine a precise estimate of the additional provision required. However, the maximum potential estimated U.S. tax liability would be $868.0 million if these earnings were to be repatriated to the United States in such a manner that the entire amount of foreign earnings would be subject to the U.S. statutory tax rate with no U.S. tax relief for foreign taxes already paid. However, the Company has no plans to repatriate these foreign earnings.

The Company's tax returns are routinely audited by federal, state and foreign tax authorities and these tax audits are at various stages of completion at any given time. The Internal Revenue Service ("IRS") has completed examinations of the Company's U.S. income tax filings through December 31, 2007. At December 31, 2016, the Company's 2011 and 2012 U.S. income tax returns were under IRS examination, and the 2009 through 2014 period is under income tax audit in Hong Kong. The Company was notified in early 2016 that the China tax authorities will commence an audit of tax years 2008 through 2014; however, that audit is now expected to commence in early 2017. The Company was also recently notified that the IRS will commence an audit of the 2013 and 2014 U.S. income tax returns in early 2017. At December 31, 2016, tax years remaining open to examination outside the U.S. include 2006 and forward.

A reconciliation of the Company's changes in gross uncertain tax positions is as follows:

	Years Ended December 31,		
(Dollars in millions)	**2016**	**2015**	**2014**
Balance at January 1:	$ 141.2	$ 127.3	$ 102.6
Increases based on current year tax positions	27.6	19.9	26.6
Decreases based on current year tax positions	—	—	—
Increases based on prior year tax positions	5.9	6.5	10.4
Decreases based on prior year tax positions	(3.2)	(5.2)	(1.6)
Settlements	—	(2.0)	—
Lapse of statute of limitations	(7.0)	(3.7)	(9.9)
Cumulative translation adjustment	(0.3)	(1.6)	(0.8)
Balance at December 31:	$ 164.2	$ 141.2	$ 127.3

Uncertain tax positions have been recorded as part of *other liabilities* with a reversal of up to approximately $53 million reasonably possible in the next 12 months due to the running of statutes of limitations and settlements with various taxing authorities, of which up to approximately $28 million would impact the effective tax rate. The amounts of recorded uncertain tax positions that impacted the effective tax rate were $117.1 million, $88.3 million and $69.8 million as of December 31, 2016, 2015 and 2014, respectively. The Company believes that it has provided adequately for all uncertain tax positions. It is reasonably possible that new issues may be raised by tax authorities and that these issues may require increases in the balance of uncertain tax positions.

Interest and penalties related to uncertain tax positions were $35.1 million and $25.8 million, as of December 31, 2016, and 2015, respectively, and are included as a component of *other liabilities*. The Company classifies interest and penalties related to uncertain tax positions as a component of *provision for income taxes*. The amount of interest and penalties included as a component of *provision for income taxes* was $9.5 million, $7.0 million and $4.8 million for the years ended December 31, 2016, 2015 and 2014, respectively.

On December 18, 2009, the Company and BMS entered into an Amended and Restated Tax Matters Agreement in anticipation of the separation from BMS. Under the Amended and Restated Tax Matters Agreement, BMS agreed to indemnify the Company for (i) any tax attributable to a MJN legal entity for any taxable period ending on or before December 31, 2008, (ii) any tax arising solely as a result of MJN's 2009 initial public offering ("IPO") and the restructuring preceding the IPO, and (iii) any transaction tax associated with the separation transaction. The Company agreed to indemnify BMS for (i) any tax payable with respect to any separate return that the Company is required to file or cause to be filed, (ii) any tax incurred as a result of any gain which may be recognized by a member of the BMS affiliated group with respect to a transfer of certain foreign affiliates by the Company in preparation for the IPO, and (iii) any tax arising from the failure or breach of any representation or covenant made by the Company which failure or breach results in the intended tax consequences of the separation transaction not being achieved. Additionally, under the Amended and Restated Tax Matters Agreement, the Company continues to maintain responsibility for any tax positions which may exist for any taxable period ending after December 31, 2008.

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 aggregated 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 costs, 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 Company's products are sold principally to distributors and retailers. Wal-Mart Stores, Inc. (including Sam's Club) accounted for 12%, 12% and 11% of the Company's consolidated gross sales for the years ended December 31, 2016, 2015, and 2014, respectively, primarily in the North America / Europe segment. DKSH International Ltd., a distributor serving primarily Asia, accounted for 14%, 14%, and 16% of the Company's consolidated gross sales for the years ended December 31, 2016, 2015, and 2014, respectively.

The Company's segment, product and geographic results consisted of:

(Dollars in millions)	Net Sales	Earnings Before Interest and Income Taxes	Year-End Assets	Payments for Capital Expenditures	Depreciation and Amortization
Year ended December 31, 2016					
Asia	$ 1,856.9	$ 559.3	$ 1,533.3	$ 50.6	$ 38.5
Latin America	643.7	156.7	449.3	27.1	8.9
North America/Europe	1,242.1	380.3	1,687.5	59.0	32.1
Total reportable segments	3,742.7	1,096.3	3,670.1	136.7	79.5
Corporate and Other	—	(277.6)	417.6	12.3	20.1
Total	$ 3,742.7	$ 818.7	$ 4,087.7	$ 149.0	$ 99.6
Year ended December 31, 2015					
Asia	$ 2,039.0	$ 682.0	$ 1,540.2	$ 81.5	$ 35.7
Latin America	757.1	175.2	573.5	18.9	10.0
North America/Europe	1,275.2	361.8	1,495.5	63.0	30.2
Total reportable segments	4,071.3	1,219.0	3,609.2	163.4	75.9
Corporate and Other	—	(282.8)	388.9	10.3	23.2
Total	$ 4,071.3	$ 936.2	$ 3,998.1	$ 173.7	$ 99.1
Year ended December 31, 2014					
Asia	$ 2,278.4	$ 818.7	$ 1,557.9	$ 119.7	$ 31.0
Latin America	867.5	199.0	678.6	26.9	10.7
North America/Europe	1,263.4	291.0	1,081.2	33.6	29.5
Total reportable segments	4,409.3	1,308.7	3,317.7	180.2	71.2
Corporate and Other	—	(320.4)	446.1	6.4	20.4
Total	$ 4,409.3	$ 988.3	$ 3,763.8	$ 186.6	$ 91.6

Net Sales (Dollars in millions)	Infant Formula	Children's Nutrition	Other	Total
Year ended December 31, 2016	$ 2,203.9	$ 1,487.2	$ 51.6	$ 3,742.7
Year ended December 31, 2015	$ 2,407.1	$ 1,593.1	$ 71.1	$ 4,071.3
Year ended December 31, 2014	$ 2,537.0	$ 1,788.4	$ 83.9	$ 4,409.3

Geographic (Dollars in millions)	United States	China [1]	Mexico	Singapore	Other	Total
Year ended December 31, 2016						
Net Sales to External Customers [2]	$ 1,034.0	$ 1,138.1	$ 258.0	$ 24.1	$ 1,288.5	$ 3,742.7
Long-Lived Assets	488.8	56.8	$ 105.3	$ 247.7	339.4	1,238.0
Year ended December 31, 2015						
Net Sales to External Customers [2]	$ 1,082.5	$ 1,238.9	$ 281.2	$ 22.9	$ 1,445.8	$ 4,071.3
Long-Lived Assets	467.4	58.3	105.5	260.4	385.6	1,277.2
Year ended December 31, 2014						
Net Sales to External Customers [2]	$ 1,043.3	$ 1,379.7	$ 345.5	$ 30.5	$ 1,610.3	$ 4,409.3
Long-Lived Assets	429.9	62.2	120.2	271.5	398.3	1,282.1

(1) For purposes of this disclosure, the term China refers to the Company's businesses in mainland China and Hong Kong.
(2) Sales by country are based on the country that sold the product.

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 and related reserves associated with Fuel for Growth is as follows:

Restructuring Charges	Year ended December 31,	
(Dollars in millions)	2016	2015
Cost of Sales		
Contract Termination	$ —	$ 10.3
Selling, General and Administrative		
Other Costs	—	0.4
Other (Income)/Expenses		
Severance and Employee Benefits	21.9	13.7
Asset Write-off	2.2	0.7
Other Costs	5.1	—
	$ 29.2	$ 25.1

Restructuring Reserves

(Dollars in millions)	Severance and Employee Benefits [1]	Contract Termination [2]	Other Costs [3]
Balance as of January 1, 2015	$ —	$ —	$ —
Charges	13.7	10.3	0.4
Cash Payments	(4.2)	—	(0.4)
Balance as of December 31, 2015	9.5	10.3	—
Charges	21.9	—	5.1
Cash Payments	(17.2)	—	(2.1)
Balance as of December 31, 2016	$ 14.2	$ 10.3	$ 3.0

[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

Long Term Incentive Plan—The Company's Long Term Incentive Plan ("LTIP") provides for the grant of stock options, performance share awards, restricted stock units and other stock-based awards. Executive officers and other key employees of MJN, and non-employee directors and others who provide substantial services to MJN, are eligible to be granted awards under the LTIP. Twenty-five million shares of stock were approved and registered with the Securities and Exchange Commission (the "SEC") for grants to participants under the LTIP. The shares reserved may be used for any type of award under the LTIP. Stock-based compensation expense is based on awards ultimately expected to vest. Forfeitures are estimated based on the historical experience of participants in the LTIP since its inception in February 2009.

MJN may grant options to purchase common stock at no less than 100% of the closing market price on the date the option is granted. Stock options generally become exercisable in installments of either 25% per year on each of the first through the fourth anniversaries of the grant date or 33% per year on each of the first through the third anniversaries of the grant date. Stock options have a maximum term of 10 years. Generally, MJN will issue shares for the stock option exercises from treasury stock, if available, or will issue new shares.

MJN may also grant performance share awards, which are granted in the form of a target number of performance shares to be earned and have a three-year performance cycle consisting of three one-year performance periods. The performance share awards have annual goals set at the beginning of each performance period, at which time the awards are considered granted. The maximum payout is 200%. If a certain threshold is not met for a performance period, no payment is made under the plan for that annual period.

MJN may also grant restricted stock units under the LTIP. Restrictions generally expire over a 1- to 4-year period from the date of grant. Stock-based compensation expense is recognized over the restricted period. A restricted stock unit is a right to receive stock at the end of the specified vesting period. A restricted stock unit has non-forfeitable rights to dividend equivalent payments and has no voting rights.

Stock Options—The fair value of stock options granted in 2016, 2015, and 2014 was estimated on the date of grant using the Black-Scholes option pricing model. No stock options with market conditions were granted in 2016, 2015, or 2014. The following assumptions were used in the valuations:

	2016	2015	2014
Expected volatility	26.0%	24.7%	26.3%
Risk-free interest rate	1.2%	1.5%	1.7%
Dividend yield	2.2%	1.6%	1.8%
Expected life	5.0 years	4.9 years	5.5 years

The expected volatility assumption required in the Black-Scholes model was calculated based principally on the Company's historical volatility, and to a lesser extent, on implied volatility from publicly-traded options on the Company's stock. The historical volatility was calculated over a period of time commensurate with the expected term of the options being valued.

The risk-free interest rate assumption in the Black-Scholes model is based upon the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on MJN's expectation of dividend payouts. The Company has determined that it has enough historical option exercise information to be able to accurately compute an expected term for use as an assumption in the Black-Scholes option pricing model. As such, its computation of expected term was calculated using the Company's historical data.

Stock option activities were as follows:

	Shares (in thousands)	Weighted Average Exercise Price of Shares	Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Balance—January 1, 2014	1,959	$ 60.12	7.4	$ 46.3
Granted	463	82.31		
Exercised	(652)	56.79		$ 23.5
Forfeited or expired	(46)	72.55		
Balance—December 31, 2014	1,724	67.01	7.3	$ 57.8
Granted	431	102.47		
Exercised	(272)	59.54		$ 9.5
Forfeited or expired	(100)	84.74		
Balance—December 31, 2015	1,783	75.73	7.0	$ 16.6
Granted	1,157	73.87		
Exercised	(216)	70.31		$ 2.8
Forfeited or expired	(156)	85.89		
Balance—December 31, 2016	2,568	74.73	7.3	$ 10.1
Vested—December 31, 2016	1,137	69.34	5.4	$ 10.1
Vested and expected to vest—December 31, 2016	2,530	$ 74.69	7.3	$ 10.1

The weighted-average grant date fair value of stock options granted is $13.88, $20.21 and $17.71 for 2016, 2015 and 2014 respectively.

Cash proceeds received from options exercised during the years ended December 31, 2016, 2015 and 2014 were $15.0 million, $16.2 million and $37.0 million, respectively. The tax benefit realized from stock options exercised was $0.8 million in 2016, $3.4 million in 2015 and $8.3 million in 2014.

At December 31, 2016, total unrecognized compensation cost related to stock options of $9.9 million is expected to be recognized over a weighted average period of 1.9 years.

Performance Share Awards—The fair value of performance share awards is based on the closing market price of MJN's stock on the date of the grant, discounted using the risk-free interest rate as the awards do not participate in dividends. Information related to performance share awards activity is summarized as follows:

Grant Year	Performance Cycle Measurement Date	Shares Granted and Earned (in thousands)	Weighted-Average Grant-Date Fair Value	Performance Shares Outstanding at December 31, 2016 (in thousands)
2016	Annually on 12/31	151	$ 70.34	109
2015	Annually on 12/31	144	$ 101.03	0
2014	Annually on 12/31	156	$ 78.64	60

Shares granted and earned in the table above assumes 100% plan performance adjusted for forfeitures. Performance shares outstanding at December 31, 2016 is adjusted for actual plan achievement level for each completed performance period. Company performance in 2015 was below the minimum threshhold for shares to be earned. At December 31, 2016, total unrecognized compensation cost related to the performance share awards outstanding of $2.3 million is expected to be recognized over a weighted average period of 1.5 years.

Restricted Stock Units—The fair value of restricted stock units is determined based on the closing market price of MJN's common stock on the grant date. A summary of restricted stock unit activity is as follows:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Nonvested restricted stock units—January 1, 2014	423	$ 61.59
Granted	235	83.91
Vested (includes cash settled)	(153)	44.36
Forfeited	(17)	76.11
Nonvested restricted stock units—December 31, 2014	488	77.21
Granted	205	101.11
Vested (includes cash settled)	(149)	69.55
Forfeited	(47)	83.97
Nonvested restricted stock units—December 31, 2015	497	88.81
Granted	384	74.51
Vested (includes cash settled)	(102)	85.49
Forfeited	(80)	83.63
Nonvested restricted stock units—December 31, 2016	699	81.93

At December 31, 2016, total unrecognized compensation cost related to nonvested restricted stock units was $31.3 million and is expected to be recognized over a weighted average period of 2.4 years.

Stock-Based Compensation Expense—The following table summarizes stock-based compensation expense related to stock options, performance share awards and restricted stock units for the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,		
(Dollars in millions)	**2016**	**2015**	**2014**
Stock options	$ 11.7	$ 7.6	$ 7.0
Performance share awards	6.8	5.8	12.7
Restricted stock units	16.1	13.0	10.7
Total pre-tax stock-based compensation expense	$ 34.6	$ 26.4	$ 30.4
Net tax benefit related to stock-based compensation expense	$ (11.6)	$ (8.8)	$ (10.5)

Stock-based compensation expense was recognized in the consolidated statements of earnings as follows:

	Years Ended December 31,		
(Dollars in millions)	2016	2015	2014
Cost of products sold	$ 4.3	$ 2.7	$ 3.0
Selling, general and administrative	27.2	21.3	24.4
Research and development	3.1	2.4	3.0
Total stock-based compensation expense	$ 34.6	$ 26.4	$ 30.4

There were no costs related to stock-based compensation that were capitalized.

8. PENSION AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The principal pension plan is the Mead Johnson & Company Retirement Plan in the United States ("U.S. Pension Plan") which represents approximately 87% and 71% of the Company's total pension and other post-employment assets and obligations, respectively. The benefits of this plan are frozen as of February 9, 2014. The Company also provides comprehensive medical and group life benefits for substantially all U.S. and Canadian retirees who elect to participate. The retiree medical plan is contributory and participation is limited to those employees who participate in their respective country's pension plan. Contributions are adjusted periodically and vary by date of retirement. The retiree life insurance plan is non-contributory.

Changes in benefit obligations, plan assets, funded status and amounts recognized in the balance sheet were as follows:

	Pension Benefits		Other Benefits	
(Dollars in millions)	2016	2015	2016	2015
Beginning benefit obligations	$ 366.6	$ 388.9	$ 48.6	$ 51.6
Service cost—benefits earned during the year	2.8	2.9	1.1	1.3
Interest cost on projected benefit obligations	11.2	13.0	1.8	2.0
Actuarial assumptions (gains)/losses	(1.8)	(3.0)	(0.2)	(5.5)
Settlements and curtailments	(42.5)	(25.9)	—	—
Benefits paid	(3.9)	(4.7)	(0.1)	(0.5)
Exchange rate changes	(2.2)	(4.6)	0.1	(0.3)
Benefit obligations at end of year	$ 330.2	$ 366.6	$ 51.3	$ 48.6
Beginning fair value of plan assets	$ 284.5	$ 231.1	$ —	$ —
Actual return on plan assets	22.5	(2.1)	—	—
Employer contributions	19.2	89.6	0.1	0.5
Settlements	(42.5)	(25.9)	—	—
Benefits paid	(3.9)	(4.7)	(0.1)	(0.5)
Exchange rate changes	(0.8)	(3.5)	—	—
Fair value of plan assets at end of year	$ 279.0	$ 284.5	$ —	$ —
Underfunded status at end of year	$ (51.2)	$ (82.1)	$ (51.3)	$ (48.6)
Amounts in the consolidated balance sheets include:				
Other assets	$ 3.4	$ 3.3	$ —	$ —
Current liabilities	(1.7)	(1.6)	—	—
Pension and other post-employment liabilities	(52.9)	(83.8)	(51.3)	(48.6)
Balance in the consolidated balance sheet at end of year	$ (51.2)	$ (82.1)	$ (51.3)	$ (48.6)
Amounts in accumulated other comprehensive loss include:				
Prior service/(benefit) and Transition Obligation	0.9	0.9	(0.1)	(0.1)
Balance in accumulated other comprehensive loss at end of year	$ 0.9	$ 0.9	$ (0.1)	$ (0.1)
Accumulated benefit obligation	$ 320.2	$ 354.9	$ 51.3	$ 48.6

The Company's defined benefit pension and other post-employment benefit plans with an accumulated benefit obligation in excess of plan assets were as follows:

	Years Ended December 31,	
(Dollars in millions)	2016	2015
Projected benefit obligation	$ 352.3	$ 386.8
Accumulated benefit obligation	349.3	383.2
Fair value of plan assets	246.5	253.1

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

	Pension Benefits			Other Benefits		
	Years Ended December 31,			Years Ended December 31,		
(Dollars in millions)	2016	2015	2014	2016	2015	2014
Service cost — benefits earned during the period	$ 2.8	$ 2.9	$ 4.8	$ 1.1	$ 1.3	$ 0.9
Interest cost on projected benefit obligations	11.2	13.0	15.8	1.8	2.0	1.5
Expected return on pension plan assets	(16.9)	(14.7)	(15.7)	—	—	—
Amortization of prior service/(benefit)	0.1	—	—	(0.1)	—	0.2
Amortization of transition cost	—	0.1	0.1	—	—	—
Net periodic benefit cost	$ (2.8)	$ 1.3	$ 5.0	$ 2.8	$ 3.3	$ 2.6
Curtailments	—	—	(5.4)	—	—	—
Net actuarial (gains)/losses	(7.2)	13.7	39.7	(0.2)	(5.5)	17.2
Total net periodic expense/(benefit)	$ (10.0)	$ 15.0	$ 39.3	$ 2.6	$ (2.2)	$ 19.8

Actuarial Assumptions

Weighted-average assumptions used to determine benefit obligations are established as of the balance sheet date and were as follows:

	Pension Benefits		Other Benefits	
	December 31,		December 31,	
	2016	2015	2016	2015
Discount rate	4.11%	4.32%	4.19%	4.47%
Rate of compensation increase	5.70%	6.09%	4.00%	4.00%

The discount rate was determined based on the yield to maturity of high-quality corporate bonds and considering the duration of the pension plan obligations. The Aon Hewitt AA Above Median yield curve is used in developing the discount rate for the U.S. Pension Plan. Compensation rate increases represent the weighted average of plans that are not frozen and therefore excludes the U.S. Pension Plan.

Weighted-average assumptions used to determine net periodic benefit cost are established at the beginning of the plan year and were as follows:

	Pension Benefits			Other Benefits		
	Years Ended December 31,			Years Ended December 31,		
	2016	2015	2014	2016	2015	2014
Discount rate	4.32%	3.98%	4.08%	4.44%	4.08%	4.98%
Expected long-term return on plan assets	5.99%	6.25%	6.16%	—%	—%	—%
Rate of compensation increase	5.90%	3.24%	3.22%	4.00%	2.83%	3.08%

The discount rate used to determine periodic service cost and interest costs of the overall benefit costs for the year ending December 31, 2017 will be based on spot rates derived from the same high-quality corporate bond yield curve used to determine the December 31, 2016 benefit obligation matched with separate cash flows for each future year.

The expected long-term return on plan assets was determined based on the target asset allocation, expected rate of return by each asset class and estimated future inflation. For the U.S. Pension Plan, the expected long-term return on plan assets assumption to be used to determine net periodic benefit costs for the year ending December 31, 2017 is 6.20%.

Assumed health care cost trend rates were as follows:

	December 31,		
	2016	2015	2014
Health care cost trend rate assumed for next year	7.5%	7.6%	6.7%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.5%	4.5%	4.5%
Year that the rate reaches the ultimate trend rate	2025	2024	2024

Assumed health care cost trend rates affect the amounts reported for the retiree medical plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(Dollars in millions)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ —	$ —
Increase/(decrease) in post-employment benefit obligation	0.6	(0.5)

Plan Assets

The Company's investment strategy for the U.S. Pension Plan assets consists of a mix of equities and fixed income in order to achieve returns over a market cycle which reduces contribution and expense at an acceptable level of risk. The target asset allocation as of December 31, 2016 was 50% public equity and 50% fixed income. Cash flow (i.e., cash contributions, benefit payments) is used to rebalance back to the targets as necessary. Investments are well diversified within each of the two major asset categories. All of the U.S. equity investments are actively managed. Investment strategies for international pension plans are typically similar, although the asset allocations are usually more conservative.

The fair values of the Company's pension plan assets by asset category were as follows:

	December 31, 2016		December 31, 2015	
(Dollars in millions)	Total	Level 1	Total	Level 1
Cash and cash equivalents	$ 21.0	$ 21.0	$ 11.1	$ 11.1
Equity securities:				
U.S. large-cap	45.6	—	38.1	—
U.S. small-cap growth	4.3	—	5.5	—
Emerging markets	15.8	—	14.3	—
Real estate investment trusts	15.0	—	6.8	—
International large-cap value	31.7	—	48.2	—
Hedge fund	13.4	—	12.7	—
Fixed income securities:				
Government bonds	42.3	—	48.1	—
Corporate bonds	85.8	—	94.7	—
Emerging markets	4.1	—	5.0	—
Total	$ 279.0	$ 21.0	$ 284.5	$ 11.1

Level 1 cash and cash equivalents, which excluded money market funds, are recorded at closing prices in active markets. Money market, equity, and fixed income funds recorded at the net asset values per share, which were determined based on quoted market prices of the underlying assets contained within the funds are excluded from the fair value hierarchy. The hedge fund is recorded at the net asset value per share, which was derived from the underlying funds' net asset values per share; this diversified hedge fund may be redeemed quarterly with 60 days notice.

Contributions

The Company is not required to make contributions to its U.S. Pension Plan in 2017. However, the intention is to fund the plan to avoid potential benefit restrictions and penalties, therefore, an estimated $5.0 million is expected to be contributed in 2017 to the U.S. Pension Plan. Furthermore, the Company plans to fund current service and past service liabilities for other pension plans. There is not expected to be any cash funding for other post-employment benefit plans in 2017, except funding to cover benefit payments. MJN contributed $19.3 million, $90.1 million and $5.2 million to its pension and other post-employment benefit plans in 2016, 2015 and 2014, respectively.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(Dollars in millions)	Pension Benefits	Other Benefits
2017	$ 32.7	$ 2.5
2018	29.5	2.9
2019	28.9	3.2
2020	29.1	3.4
2021	25.1	3.6
Years 2022 - 2026	111.4	18.5

Lump Sum Settlements

A lump sum settlement window was offered to approximately 300 terminated, vested participants in the U.S. Pension Plan. This window expired on September 30, 2016 and approximately 40% of these participants accepted the offer. Payments to participants who accepted the offer were made in the fourth quarter of 2016 and totaled $15.7 million. This amount is included in the Settlements and curtailments line of the table above which details the changes in benefit obligations, plan assets, funded status and amounts recognized in the balance sheet. There was no impact to the Company's results of operations related to this settlement.

Defined Contribution Benefits

Employees who meet certain eligibility requirements may participate in various defined contribution plans. Total cost recognized for all defined contribution benefit plans was $22.2 million, $23.4 million and $22.5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

9. NONCONTROLLING INTERESTS

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

See "—Note 18. Equity" for further discussion of Argentinian noncontrolling interest.

10. OTHER (INCOME)/EXPENSES—NET

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

	Years Ended December 31,		
(Dollars in millions)	2016	2015	2014
Venezuela long-lived asset impairments	45.9	—	—
Foreign exchange (gains)/losses—net	18.8	6.3	0.5
Restructuring, severance and other related costs—net	29.1	18.0	1.3
(Gain)/loss on asset disposals	—	9.0	—
Marketable securities (gain)/loss	—	(5.6)	—
Gain on sale of investment	—	—	(4.0)
Pension curtailment (gain)/loss	—	—	(5.4)
Legal, settlements and other—net	(1.7)	11.3	(4.7)
Other (income)/expenses—net	$ 92.1	$ 39.0	$ (12.3)

During the first quarter of 2016, the Company recognized impairment charges of $45.9 million on long-lived assets of its Venezuelan subsidiary. See "—Note 20. Venezuela Currency Matters" for additional information.

Foreign exchange (gains)/losses—net includes the re-measurement of U.S. dollar denominated intercompany loans, payables, and royalties as well as foreign currency devaluation and transactional foreign exchange gains recognized in the Company's Venezuelan subsidiary. The re-measurement of the intercompany payable from the Venezuelan subsidiary to subsidiaries in Mexico and the U.S. resulted in a $7.7 million gain during the year ended December 31, 2016. Currency devaluation within Venezuela resulted in losses of $32.9 million, $2.3 million and $6.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. Transactional foreign exchange gains were $3.4 million, $2.4 million and $14.0 million for the years ended December 31, 2016, 2015 and 2014. See "—Note 20. Venezuela Currency Matters" for additional information.

For the years ended December 31, 2016 and 2015, restructuring, severance and other costs—net included $29.2 million and $13.7 million, respectively, of restructuring costs associated with the Fuel for Growth program. See "—Note 6. Restructuring" for additional information.

For the year ended December 31, 2015, (gain)/loss on asset disposals related to fixed asset write-offs as the Company optimized its supply chain network in Asia. The marketable securities (gain)/loss for the year ended December 31, 2015 is described further in "—Note 17. Marketable Securities." Legal, settlements, and other—net included payments made in connection with the SEC settlement disclosed by the Company in July 2015.

11. RECEIVABLES

The major categories of receivables were as follows:

	December 31,	
(Dollars in millions)	**2016**	**2015**
Trade receivables	$ 320.6	$ 296.7
Miscellaneous receivables	52.8	51.2
Less allowances	(4.4)	(5.4)
Receivables—net	$ 369.0	$ 342.5

12. INVENTORIES

The major categories of inventories were as follows:

(Dollars in millions)	December 31,	
	2016	**2015**
Finished goods	$ 262.9	$ 251.7
Work in process	64.1	70.3
Raw and packaging materials	146.5	162.9
Inventories	$ 473.5	$ 484.9

13. LONG-LIVED ASSETS

Property, Plant and Equipment - net

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

(Dollars in millions)	December 31,	
	2016	**2015**
Land	$ 8.1	$ 12.3
Buildings and improvements	739.8	729.6
Machinery, equipment and fixtures	823.9	786.5
Construction in progress	110.4	123.6
Accumulated depreciation	(733.6)	(688.0)
Property, plant and equipment—net	$ 948.6	$ 964.0

During the year ended December 31, 2016, the Company recognized an impairment charge of $45.9 million on long-lived assets of its Venezuelan subsidiary. See "—Note 20. Venezuela Currency Matters" for additional information.

For the year ended December 31, 2016, both buildings and improvements and machinery, equipment and fixtures increased primarily due to the Company's investments in North America and Asia manufacturing sites. Depreciation expense was $85.3 million, $83.7 million and $75.9 million for the years ended December 31, 2016, 2015 and 2014, respectively, and is primarily included in *costs of products sold*. Interest capitalized during the year was $1.0 million, $0.5 million and $1.5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The Company's liability for asset retirement obligations was $7.9 million and $7.3 million at December 31, 2016 and 2015, respectively.

Other Intangible Assets - net

The gross carrying value and accumulated amortization by class of *other intangible assets-net* were as follows:

	As of December 31, 2016			As of December 31, 2015		
(Dollars in millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**
Indefinite-lived intangible assets						
Trademark[1]	$ 14.4	$ —	$ 14.4	$ 16.9	$ —	$ 16.9
Non-compete agreement[1]	2.8	—	2.8	3.3	—	3.3
Total	17.2	—	17.2	20.2	—	20.2
Amortizable intangible assets						
Computer software	145.4	(117.3)	28.1	136.7	(103.0)	33.7
Distributor-customer relationship[2] 10 year life	1.4	(0.7)	0.7	1.6	(0.6)	1.0
Total	146.8	(118.0)	28.8	138.3	(103.6)	34.7
Total other intangible assets	$ 164.0	$ (118.0)	$ 46.0	$ 158.5	$ (103.6)	$ 54.9

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

Amortization expense for other intangible assets was $14.3 million, $15.4 million and $15.7 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Expected amortization expense related to intangible assets is as follows:

(Dollars in millions) **Years Ending December 31,**	
2017	$ 13.1
2018	6.2
2019	3.3
2020	2.8
2021	2.2
Thereafter	1.1

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**
Year Ended December 31, 2016	$ 142.4	$ 149.0	$ (6.6)
Year ended December 31, 2015	$ 179.0	$ 173.7	$ 5.3
Year ended December 31, 2014	$ 149.0	$ 186.6	$ (37.6)

14. GOODWILL

For the years ended December 31, 2016 and 2015, 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, 2015	$ —	$ 143.7	$ 19.0	$ 162.7
Translation adjustments	—	(36.7)	—	(36.7)
Balance as of December 31, 2015	—	107.0	19.0	126.0
Translation adjustments	—	(17.1)	—	(17.1)
Balance as of December 31, 2016	$ —	$ 89.9	$ 19.0	$ 108.9

As of December 31, 2016 and 2015, the Company had no accumulated impairment loss.

15. DEBT

Short-Term Borrowings

As of December 31, 2016 and 2015, the Company had *short-term borrowings* of $3.9 million and $3.0 million, respectively, which consisted primarily of borrowings made by its subsidiary in Argentina. The short-term borrowings in Argentina had a weighted-average interest rate of 29.3% as of December 31, 2016.

Term Loan Agreement

During the year ended December 31, 2015, the Company entered into a $1,000.0 million short-term loan agreement (the "Term Loan Agreement") with various financial institutions, including Citibank, N.A., as Syndication Agent, and JPMorgan Chase Bank, N.A. ("JPMCB"), as Administrative Agent. The Term Loan Agreement was unsecured and all loans thereunder were payable at maturity in April 2016. The amounts borrowed under the Term Loan Agreement were used to fund repurchases of common stock pursuant to an accelerated share repurchase agreement described in "—Note 18. Equity." Following the offering of $750.0 million of 3.0% Senior Notes due November 15, 2020 ("2020 Notes") and $750.0 million of 4.125% Senior Notes due November 15, 2025 ("2025 Notes"), further discussed below, the Company repaid all borrowings under the Term Loan Agreement and terminated the Term Loan Agreement during the year ended December 31, 2015. The payoff amount of $1,000.3 million included principal, accrued and unpaid interest and a facility fee.

Revolving Credit Facility Agreement

The Company has an unsecured, five-year revolving credit facility agreement (the "Revolving Credit Facility") which is repayable at maturity in June 2019, subject to annual extensions if a sufficient number of lenders agree. The maximum amount of outstanding borrowings and letters of credit permitted at any one time under the Revolving Credit Facility is $750.0 million, which may be increased from time to time up to $1,000.0 million at the Company's request, subject to obtaining additional commitments and other customary conditions. The Revolving Credit Facility contains financial covenants, whereby the ratio of consolidated adjusted total debt to consolidated Earnings Before Interest Income Taxes, Depreciation and Amortization ("EBITDA") cannot exceed 3.50 to 1.00, and the ratio of consolidated EBITDA to consolidated interest expense cannot be less than 3.00 to 1.00. The Company was in compliance with these financial covenants as of December 31, 2016.

Borrowings under the Revolving Credit Facility bear interest at a rate that is determined as a base rate plus a margin. The base rate is either (a) LIBOR for a specified interest period or (b) a floating rate based upon JPMorgan Chase Bank's prime rate, the Federal Funds rate or LIBOR. The margin is determined by reference to the Company's credit rating. The margin can range from 0% to 1.375% over the base rate. In addition, the Company incurs an annual 0.125% facility fee on the entire facility commitment of $750.0 million.

There were no borrowings under the Revolving Credit Facility during the year ended December 31, 2016. During the year ended December 31, 2015, the Company had borrowings and repayments of $446.0 million under the Revolving Credit Facility. Such borrowings were used to repurchase shares of the Company's common stock and for general corporate purposes, and were repaid following the issuance of the 2020 Notes and 2025 Notes, described below. As of December 31, 2016 and 2015, the Company had no borrowings under the Revolving Credit Facility and the Company had $750.0 million available at December 31, 2016.

Long-Term Debt

As of December 31, 2016 and 2015, respectively, the components of *long-term debt* were as follows:

(Dollars in millions)	December 31,	
Principal Value:	2016	2015
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	$ 3,000.0	$ 3,000.0
Adjustments to Principal Value:		
Unamortized basis adjustment for settled interest rate swaps	5.1	7.0
Unamortized bond discount	(4.3)	(4.8)
Unamortized debt issuance costs	(19.4)	(21.6)
Fair-value interest rate swaps	(5.2)	0.4
Long-term debt	$ 2,976.2	$ 2,981.0

During the year ended December 31, 2015, the Company issued and sold the 2020 Notes and 2025 Notes at a public offering price of 99.902% and 99.958%, respectively. The Company received net proceeds of $1,487.7 million from the sale of both the 2020 Notes and 2025 Notes, after deducting underwriters’ discounts and offering costs. Interest is payable on each of the 2020 Notes and 2025 Notes on May 15 and November 15 of each year. Proceeds from the 2020 Notes and 2025 Notes were used to repay borrowings under the Term Loan Agreement and borrowings under the Revolving Credit Facility.

During the years ended December 31, 2015 and 2014, the Company entered into a series of fair value interest rate swaps that effectively convert the Company’s 2019 Notes and 2020 Notes from a fixed rate structure to a floating rate structure. See “—Note 16. Derivatives” for a discussion of the fair value swaps.

During the year ended December 31, 2014, the Company issued and sold $500.0 million of 2044 Notes at a public offering price of 99.465% (“2044 Notes”). Net proceeds from the sale of the 2044 Notes, after deducting underwriters’ discounts and offering expenses, were $492.0 million. Interest on the 2044 Notes is payable semi-annually on June 1 and December 1 of each year. Proceeds from the 2044 Notes, together with cash on hand, were used to redeem the $500.0 million of 3.50% Notes due in 2014 (“2014 Notes”), as described below.

During the year ended December 31, 2014, the Company redeemed all of its 2014 Notes. The redemption price, which was calculated in accordance with the terms of the 2014 Notes and included principal plus a make-whole premium, was $503.5 million.

Using quoted prices in markets that are not active, the Company determined that the fair value of its long-term debt was $3,092.5 million (Level 2) as of December 31, 2016.

The Company’s long-term debt may be prepaid at any time, in whole or in part, at a redemption price equal to the greater of par value or an amount calculated based upon the sum of the present values of the remaining scheduled payments. Upon a change of control, the Company may be required to repurchase the notes for an amount equal to 101% of the then-outstanding principal amount plus accrued and unpaid interest. Interest on the notes are due semi-annually and the notes are not subject to amortization.

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

	Years Ended December 31,		
(Dollars in millions)	2016	2015	2014
Interest expense	$ 118.7	$ 74.6	$ 69.9
Interest income	(13.3)	(9.6)	(9.6)
Interest expense-net	$ 105.4	$ 65.0	$ 60.3
Interest payments, net of amounts related to interest rate swaps	$ 120.2	$ 66.6	$ 72.5

The increase in *interest expense-net* during the year ended December 31, 2016 was driven by interest expense on the November 2015 issuance of the 2020 Notes and the 2025 Notes, the proceeds of which were used primarily to fund purchases of common stock pursuant to an accelerated share repurchase agreement. See “—Note 18. Equity” for additional information.

16. DERIVATIVES

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 December 31, 2016 and 2015, 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	December 31, 2016	December 31, 2015
Foreign exchange contracts	Cash Flow	Prepaid expenses and other assets	$ 10.9	$ 6.4
Interest rate forward swaps	Fair Value	Other assets	1.1	3.9
Foreign exchange contracts	Cash Flow	Accrued expenses	(0.2)	(0.9)
Interest rate forward swaps	Fair Value	Other liabilities	(6.3)	(3.5)
Commodity contracts	Cash Flow	Accrued expenses	—	(0.2)
Net asset/(liability) of derivatives designated as hedging items			$ 5.5	$ 5.7

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 December 31, 2016 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 December 31, 2016 and 2015, 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 year ended December 31, 2016, the Company discontinued cash flow hedge accounting for an insignificant number of hedges with an immaterial net impact to the income statement as the underlying transactions were no longer probable. For the years ended December 31, 2015 and 2014, 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 $1.2 million and $0.9 million for the years ended December 31, 2016 and 2015, respectively, and insignificant for year ended December 31, 2014.

The table below summarizes the Company's outstanding foreign exchange forward contracts at December 31, 2016. 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	Maturity
Foreign exchange contracts:				
Cash flow hedges:				
Canadian dollar	1.31	$ 64.2	$ 1.4	2017
Mexican peso	19.40	61.4	5.2	2017
Malaysian ringgit	4.16	29.5	2.4	2017
Philippine peso	48.52	47.0	1.7	2017
Total foreign exchange contracts		$ 202.1	$ 10.7	

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)	2016	2015
Balance—January 1	$ 10.1	$ 10.4
Derivatives qualifying as cash flow hedges deferred in other comprehensive income	7.6	21.4
Derivatives qualifying as cash flow hedges reclassified to cost of products sold	(6.9)	(23.8)
Change in deferred taxes	(0.7)	2.1
Balance—December 31	$ 10.1	$ 10.1

At December 31, 2016, 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 $10.1 million, $8.9 million of which is expected to be reclassified into earnings within the next 12 months.

Interest Rate Forward Swaps

During 2013, the Company entered into interest rate forward starting swaps with a combined notional value of $500.0 million. The forward starting rates of the swaps ranged from 3.79% to 3.94% and had an effective date of October 31, 2014. The forward starting swaps effectively mitigated the interest rate exposure associated with the Company's offering of the 2044 Notes, the proceeds of which were used to redeem all of the Company's 2014 Notes. These derivative instruments were designated as cash flow hedges at inception and were highly effective in offsetting fluctuations in the benchmark interest rate. During 2014, and around the time of the issuance of the 2044 Notes, the Company paid $45.0 million to settle the outstanding forward swaps. This payment was recognized in *accumulated other comprehensive loss* and will be amortized over the life of the 2044 Notes. There was $0.5 million of ineffectiveness related to the forward swaps through the date of settlement, which was recognized as a loss within *other (income)/expenses-net* during the year ended December 31, 2014. During the years ended December 31, 2016, 2015 and 2014, $1.4 million, $1.4 million and $0.9 million of amortization of the settlement amount was recognized as incremental interest expense within *interest expense-net*, respectively.

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 December 31, 2016, the Company had no commodity contracts outstanding for 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*. The effective portion of the hedges were insignificant for the each of the years ended December 31, 2016 and 2015, and the ineffective portions of the hedges were insignificant for the each of the years ended December 31, 2016, 2015, and 2014.

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 December 31, 2016, and the conversion of fixed to floating rate resulted in a reduction in interest expense of $7.1 million and $10.0 million for the years ended December 31, 2016 and 2015, respectively. See "—Note 15. Debt" for additional information regarding the 2019 Notes.

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 December 31, 2016, and the conversion of fixed to floating rate resulted in a reduction in interest expense of $6.8 million and $1.1 million for the years ended December 31, 2016 and 2015, respectively. See "—Note 15. Debt" for additional information regarding the 2020 Notes.

The following table summarizes the interest rate swaps outstanding as of December 31, 2016. 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.

				Fair Value Asset/(Liability)	
(Dollars in millions)	**Notional Amount of Underlying**	**Fixed Rate Received**	**Variable Rate Paid (U.S. 3 Month LIBOR +)**	**December 31, 2016**	**December 31, 2015**
Swaps associated with the 2019 Notes	$ 700.0	4.9%	3.14%	$ 1.1	$ 3.9
Swaps associated with the 2020 Notes	$ 750.0	3.0%	1.38%	$ (6.3)	$ (3.5)

See "—Note 15. 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 $1,022.0 million and $510.1 million as of December 31, 2016 and 2015, 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 generally equivalent to par.

17. MARKETABLE SECURITIES

The Company sold its investments in debt securities during 2015 for $21.7 million. As of December 31, 2016 and December 31, 2015, the Company held no investments in debt securities. During the year ended December 31, 2015, the Company recognized a net gain on trading securities of $5.6 million, resulting from fluctuation in fair value and foreign exchange.

Debt securities have been classified as trading securities and are carried at fair value based on quoted market prices and classified as Level 1 in the fair value hierarchy. The cost basis for the Company's debt securities is determined by the specific identification method. Realized and unrealized gains and losses on trading securities are included in *other (income)/expenses - net*.

18. EQUITY

Changes in common shares and treasury stock were as follows:

(In millions)	Common Shares Issued	Treasury Stock	Treasury Stock - at Cost
Balance as of January 1, 2014	206.8	4.8	$ 351.9
Stock-based Compensation	1.0	0.1	7.9
Repurchase of Common Stock	—	0.6	52.9
Retirement of Treasury Stock	(0.6)	(0.6)	(50.1)
Balance as of December 31, 2014	207.2	4.9	362.6
Stock-based Compensation	0.5	—	—
Repurchase of Common Stock	—	5.6	437.0
Retirement of Treasury Stock	(5.6)	(5.6)	(437.0)
Accelerated Share Repurchase	(10.7)	—	—
Balance as of December 31, 2015	191.4	4.9	362.6
Stock-based Compensation	0.4	—	—
Repurchase and Retirement of Common Stock	(1.4)	—	—
Accelerated Share Repurchase	(2.1)	—	—
Balance as of December 31, 2016	188.3	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 and Accelerated Share Repurchase Agreement

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"). During the year ended December 31, 2016, the Company repurchased $0.4 million of its common stock which completed all purchases remaining under the 2013 Authorization. During the year ended December 31, 2015, the Company repurchased $437.0 million of its common stock under the 2013 Authorization.

In October 2015, the Company's board of directors approved a new 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. On October 22, 2015, the Company entered into an accelerated share repurchase agreement (the "ASR Agreement") with Goldman, Sachs & Co. ("Goldman") to repurchase $1,000.0 million (the "Repurchase Price") of its common stock. Under the terms of the ASR Agreement, the Company paid the Repurchase Price in advance in exchange for 10,725,552 shares of its common stock received by the Company on October 27, 2015 (which shares are equivalent to approximately 85% of the number of shares of its common stock that could have been purchased with an amount of cash equal to the Repurchase Price based on the closing price of its common stock on October 22, 2015). Upon final settlement of the ASR Agreement in June 2016, an additional 2,086,050 shares were delivered to the Company for no additional consideration based generally on the daily volume-weighted average prices of its common stock over the term of the ASR Agreement. The total shares received and retired under the terms of the ASR Agreement was 12,811,602 shares with an average price paid per share of approximately $78.05. The par value of the retired shares were reflected as a reduction to common stock and the payment made to Goldman was recorded as a reduction to retained earnings within shareholders' equity. In addition to the shares delivered upon final settlement of the ASR Agreement, during the year ended December 31, 2016, the Company repurchased $100.0 million of its common stock pursuant to the 2015 Authorization. As of December 31, 2016 and 2015, the Company had $400.0 million and $500.0 million remaining available under the 2015 Authorization, respectively.

Share repurchases made pursuant to the ASR Agreement were primarily funded by the issuance of the 2020 Notes and 2025 Notes. See "—Note 15. Debt" for additional information regarding the Company's debt.

Redeemable Noncontrolling Interest

On March 15, 2012, the Company acquired 80% of the outstanding capital stock of Nutricion para el Conosur S.A. ("Nutricion") which manufactures, distributes and sells infant formula and children's nutrition products in Argentina under the SanCor Bebé and Bebé Plus brands (the "Argentine Acquisition"). Under the terms of an agreement related to the Argentine Acquisition, the noncontrolling interest owner had the right to require MJN to purchase (the "Put Right") its remaining 20% interest or to sell (the "Call Right") up to an additional 20% of the outstanding capital stock of Nutricion. The Put Right was to be exercisable once from September 15, 2015 to September 15, 2018 and the decision to exercise was not within the control of MJN. The price paid upon exercise was to be determined based on established multiples of sales and earnings of the acquired business. As a result of the Put Right, the noncontrolling interest was presented as *redeemable noncontrolling interest* outside of *equity* on the balance sheet. Accretion to the redemption value of the Put Right was being recognized through equity using an interest method over the period from March 2012 to June 2015.

On June 30, 2015, the noncontrolling partner exercised its single trigger put option and MJN acquired an additional 10% of the outstanding capital stock of the local entity, thereby increasing MJN's ownership interest to 90%. The agreed upon purchase price paid to the noncontrolling interest owner was $24.4 million as of June 30, 2015 (based upon the agreed local currency price). The purchase price was settled during the second and third quarters of 2015. Following the impact of foreign exchange, the cash outflow associated with the acquisition was $24.2 million.

As a result of the transaction, the noncontrolling interest owner no longer has a Put Right and the Call Right was amended. The amended Call Right gives the noncontrolling interest owner the right to require MJN to sell up to 10% of the outstanding capital stock of Nutricion, exercisable from June 30, 2015 to June 30, 2022. Due to the termination of the Put Right, the remaining noncontrolling interest was recharacterized from *redeemable noncontrolling interest* outside of *equity* to *noncontrolling interests* within *equity* on the balance sheet beginning on June 30, 2015.

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	Redeemable Noncontrolling Interest
Balance as of January 1, 2016	$ (329.8)	$ (17.2)	$ (0.8)	$ (347.8)	$ (12.7)	$ —
Deferred Gains/(Losses)	(68.1)	7.7	—	(60.4)	(1.5) (1)	—
Reclassification Adjustment for (Gains)/ Losses Included in Net Earnings	—	(4.6)	—	(4.6)	—	—
Tax Benefit/(Expense)	2.9	(1.5)	—	1.4	1.0	—
Balance as of December 31, 2016	$ (395.0)	$ (15.6)	$ (0.8)	$ (411.4)	$ (13.2)	$ —
Balance as of January 1, 2015	$ (180.4)	$ (17.8)	$ (0.7)	$ (198.9)	$ 1.9	$ (21.6)
Deferred Gains/(Losses)	(138.9)	19.7	(0.2)	(119.4)	(3.2)	(1.3) (1)
Reclassification Adjustment for (Gains)/ Losses Included in Net Earnings	—	(20.6)	0.1	(20.5)	—	—
Tax Benefit/(Expense)	1.0	1.5	—	2.5	—	—
Acquisition of Noncontrolling Interest	(11.5)	—	—	(11.5)	(11.4)	22.9
Balance as of December 31, 2015	$ (329.8)	$ (17.2)	$ (0.8)	$ (347.8)	$ (12.7)	$ —

(1) Represents foreign currency translation adjustments.

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

	Years Ended December 31,							
	Affected Statement of Earnings Lines							
(Dollars in millions)	Cost of Products Sold		Selling, General and Administrative		Tax Benefit/(Expense)		Net	
	2016	2015	2016	2015	2016	2015	2016	2015
Deferred Gains/(Losses) on Derivatives Qualifying as Hedges:								
Forward Exchange Contracts	$ 6.9	$ 23.8	$ —	$ —	$ (0.3)	$ (5.4)	$ 6.6	$ 18.4
Commodity Contracts	(0.9)	(1.8)	—	—	0.4	0.7	(0.5)	(1.1)
Interest Rate Forward Swap	(1.4)	(1.4)	—	—	0.5	0.5	(0.9)	(0.9)
Pension and Other Post-employment Benefit Plans:								
Prior Service Benefits	—	—	—	0.1	—	—	—	0.1
Total Reclassifications	$ 4.6	$ 20.6	$ —	$ 0.1	$ 0.6	$ (4.2)	$ 5.2	$ 16.5

19. LEASES

Minimum rental commitments under all non-cancelable operating leases, primarily real estate leases for offices, manufacturing-related leases and vehicle leases, in effect at December 31, 2016, were:

(Dollars in millions) Years Ending December 31,	
2017	$ 37.3
2018	30.2
2019	23.5
2020	18.9
2021	13.1
Thereafter	55.7
Total Minimum Payments	$ 178.7

Operating lease rental expenses were $36.1 million, $37.4 million and $39.5 million in the years ended December 31, 2016, 2015 and 2014, respectively. At December 31, 2016 and 2015, the Company had capital lease obligations outstanding in the amount of $3.1 million and $2.0 million, respectively.

20. VENEZUELA CURRENCY 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"). 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.

The rates were as follows:

(VEF to 1.0 USD)	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
DIPRO	10.0	10.0	10.0	10.0
DICOM	673.8	658.9	628.3	272.9

Effect on the Company's Results

Currency Matters

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.* Additional losses in the amount of $0.6 million were recognized during the year ended December 31, 2016, related to remeasurement of the monetary assets and liabilities due to the continued devaluation of the VEF as measured at the DICOM rate against the USD.

For the years ended December 31, 2015 and 2014, currency devaluation within Venezuela resulted in losses of $2.3 million and $6.1 million, respectively.

During the years ended December 31, 2016, 2015 and 2014, the Company received U.S dollars to make payments for intercompany purchases of inventory at the CENCOEX Official Rate that was more favorable than the SICAD or DICOM rate used to remeasure net monetary assets of its Venezuela subsidiary, which resulted in recognized gains of $3.4 million, $2.4 million and $14.0 million, respectively.

Long Lived and Other Assets

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 Venezuela 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 first quarter of 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.

In addition, the changes in Venezuelan exchange rates and ongoing deterioration of the business resulted in the Company incurring charges in the amount of $3.0 million during the year ended December 31, 2016 related to prepaid and other assets in Venezuela that can no longer be utilized.

Intercompany Payable

During the year ended December 31, 2016, the Company wrote-off a $52.0 million intercompany payable from its Venezuelan subsidiary to its subsidiaries in Mexico and the U.S. The decision was based on a reduced level of local currency which has resulted in the Venezuelan subsidiary no longer having sufficient cash to satisfy this payable, the continued inability to access the currency exchange and the Company's view that sales in Venezuela are unlikely to return in the near term to a level that would generate adequate liquidity to satisfy this payable. The write-off of the payable had no impact on the Company's results of operations on a pre-tax basis as the payable in Venezuela and the receivables in Mexico and the U.S. were held in U.S. dollars. The tax impact of this write-off was calculated based upon the tax rules in each of the impacted jurisdictions and resulted in a gain of $14.7 million recognized within *Provision for Income Taxes.*

Remaining Exposures

Net sales in the Venezuelan subsidiary were negligible as a percent of total Company net sales for the year ended December 31, 2016. In addition, the Venezuelan subsidiary's earnings were not a material component of MJN's consolidated results during the year ended December 31, 2016.

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 December 31, 2016.

21. 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.

22. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year [a]
2016					
Net sales	$ 962.1	$ 941.5	$ 937.5	$ 901.6	$ 3,742.7
Gross profit	614.5	608.3	603.8	575.1	2,401.7
Net earnings	76.7	155.8	148.6	168.2	549.3
Net earnings attributable to shareholders	72.7	155.1	149.3	167.8	544.9
Basic earnings per share	$ 0.39	$ 0.83	$ 0.80	$ 0.91	$ 2.93
Diluted earnings per share	$ 0.39	$ 0.83	$ 0.80	$ 0.91	$ 2.92
2015					
Net sales	$ 1,094.4	$ 1,032.4	$ 977.5	$ 967.0	$ 4,071.3
Gross profit	700.9	676.0	630.7	608.4	2,616.0
Net earnings	207.1	162.6	154.6	131.0	655.3
Net earnings attributable to shareholders	207.4	162.9	155.2	128.0	653.5
Basic earnings per share	$ 1.02	$ 0.80	$ 0.77	$ 0.67	$ 3.28
Diluted earnings per share	$ 1.02	$ 0.80	$ 0.77	$ 0.67	$ 3.27

(a) When aggregated, earnings per share for the four quarters may not equal the full year earnings per share figure due to the variability of quarterly earnings and the timing of share repurchases.

23. SUBSEQUENT EVENTS

Merger Agreement

On February 10, 2017, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Reckitt Benckiser Group plc, a company incorporated in England and Wales ("Reckitt Benckiser"), and Marigold Merger Sub, Inc., a Delaware corporation and a wholly owned indirect subsidiary of Reckitt Benckiser ("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, 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.

Litigation Related to the Merger

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, its board of directors, Reckitt Benckiser and 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. 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.

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 entering into a service agreement to support the operation of those assets. The aggregate consideration for this asset purchase is approximately AUD $200 million. The Company expects the transaction to close in the second quarter of 2017.

SCHEDULE II

MEAD JOHNSON NUTRITION COMPANY

VALUATION AND QUALIFYING ACCOUNTS

Description	**Balance at beginning of period**	**Provisions for bad debts**	**Bad debts written off**	**Other**	**Balance at end of period**
(Dollars in millions)					
Allowances for Doubtful Accounts					
For the year ended December 31, 2016	$ 5.4	$ (0.6)	$ —	$ (0.4)	$ 4.4
For the year ended December 31, 2015	9.6	(0.2)	(3.1)	(0.9)	5.4
For the year ended December 31, 2014	6.5	4.3	(0.6)	(0.6)	9.6

Description	**Balance at beginning of period**	**Provision for valuation allowance**	**Release of valuation allowance/ other**	**Balance at end of period**
(Dollars in millions)				
Valuation Allowance on Deferred Tax Assets				
For the year ended December 31, 2016	$ 14.8	$ 36.0	$ (13.2)	$ 37.6
For the year ended December 31, 2015	7.7	9.3	(2.2)	14.8
For the year ended December 31, 2014	7.3	1.8	(1.4)	7.7