AMERICAN NATIONAL BANKSHARES INC.
Form DEF 14A
April 13, 2015
American National Bankshares Inc.
628 Main Street, Danville, Virginia, 24541

Notice of Annual Meeting

and

Proxy Statement

Annual Meeting of Shareholders
To Be Held
May 19, 2015

THIS PAGE INTENTIONALLY LEFT BLANK

American National Bankshares Inc.
628 Main Street
Danville, Virginia 24541

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held May 19, 2015

Notice is hereby given that the Annual Meeting of Shareholders of American National Bankshares Inc. (the "Company") will be held as follows:

Place: The Wednesday Club
1002 Main Street
Danville, Virginia 24541

Date: May 19, 2015 at 9:00 a.m.

The Annual Meeting is being held for the following purposes:

1. To elect four Class I directors of the Company to serve three-year terms expiring at the 2018 Annual Meeting.

2. To elect one Class III director of the Company to serve a two-year term expiring at the 2017 Annual Meeting.

3. To ratify the appointment of Yount, Hyde & Barbour P.C., independent registered public accounting firm, as auditors of the Company for the year ending December 31, 2015.

4. To hold an advisory vote on executive compensation of the Company's named executive officers as disclosed in the accompanying proxy statement.

5. To transact any other business that may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on April 3, 2015 are entitled to notice of and to vote at the Annual Meeting.

It is important that your shares are represented at the meeting. Accordingly, please sign, date, and mail the enclosed proxy in the enclosed postage-paid envelope, whether or not you plan to attend. If you do attend the Annual Meeting, you may revoke your proxy and vote your shares in person.

By Order of the Board of Directors,
William W. Traynham
Secretary

April 9, 2015

THIS PAGE INTENTIONALLY LEFT BLANK

AMERICAN National Bankshares Inc.

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
MAY 19, 2015

INTRODUCTION

This proxy statement is furnished in conjunction with the solicitation by the Board of Directors of American National Bankshares Inc. (the "Company") of the accompanying proxy to be used at the Annual Meeting of Shareholders of the Company (the "Annual Meeting") and at any adjournment thereof. The meeting will be held on Tuesday, May 19, 2015, 9:00 a.m., at The Wednesday Club, 1002 Main Street, Danville, Virginia, 24541, for the purposes set forth below and in the Notice of Annual Meeting of Shareholders. The date of this proxy statement is April 9, 2015 and the approximate mailing date of this proxy statement and the enclosed proxy is April 13, 2015.

Voting Rights of Shareholders

Only shareholders of record at the close of business on April 3, 2015, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof. As of the close of business on April 3, 2015, there were 8,727,696 shares of the Company's common stock outstanding, of which 8,546,660 shares were entitled to vote at the Annual Meeting. For the reasons explained below, the number of shares entitled to vote is less than the number of shares of the Company's common stock outstanding on such date. The Company has no other class of stock outstanding. Each share of common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting.

A majority of the votes entitled to be cast, represented in person or by proxy, will constitute a quorum for the transaction of business. Shares for which the holder has elected to abstain or to withhold the proxy's authority to vote on a matter will count toward a quorum but will not be included in determining the number of votes cast with respect to such matter.

Shares held by brokers or banks in street name ("broker shares") that are voted on any matter are included in the quorum. Broker shares that are not voted on any matter will not be included in determining whether a quorum is present.

Ambro and Company, the nominee name that the Company's banking subsidiary, American National Bank and Trust Company (the "Bank"), uses to register the securities it holds in a fiduciary capacity for customers, held 181,036 shares of the Company's common stock as sole fiduciary (with no qualifying co-fiduciary having been appointed) as of April 3, 2015, which constituted 2.07% of the issued and outstanding shares of the Company's common stock on that date. Under Virginia law, such shares cannot be voted at the Annual Meeting and are not deemed to be outstanding and entitled to vote for purposes of determining a quorum.

Voting of Broker Shares

If a beneficial owner of broker shares does not provide the broker or other nominee that holds the shares with specific voting instructions, then under applicable rules, such organization may generally vote on "routine" matters but cannot vote on "non-routine" matters. If the broker or other nominee that holds such shares does not receive instructions from the beneficial owner on how to vote shares on a non-routine matter, that organization will inform the inspector of election that it does not have the authority to vote on this matter with respect to the shares. This is generally referred to as a "broker non-vote."

The ratification of the appointment of Yount, Hyde & Barbour, P.C. as the Company's independent registered public accounting firm for 2015 (Proposal Three) is a matter considered routine under applicable rules. A broker or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposal Three. The election of directors (Proposals One and Two) and the advisory vote on the Company's executive compensation (Proposal Four) are matters considered non-routine under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and therefore broker non-votes may exist in connection with Proposals One, Two and Four.

Revocation and Voting of Proxies

Execution of a proxy will not affect a shareholder's right to attend the Annual Meeting and to vote in person. Any shareholder who has executed and returned a proxy may revoke it by attending the Annual Meeting and requesting to vote in person. A shareholder may also revoke his or her proxy at any time before it is exercised by filing a written notice with the Company or by submitting a proxy bearing a later date. Proxies will extend to, and will be voted at, any adjourned session of the Annual Meeting.

Solicitation of Proxies

The cost of solicitation of proxies will be borne by the Company. Solicitation is being made by mail, and if necessary, may be made in person, by telephone or Internet or special letter by officers and employees of the Company or the Bank, acting on a part-time basis and for no additional compensation.

PROPOSALS ONE AND TWO – ELECTION OF DIRECTORS

The Company's Board of Directors currently consists of 14 persons. Pursuant to the Company's Articles of Incorporation, the Board is to be divided into three classes (I, II and III), with each class as nearly equal in number as possible. The term of office for current Class I directors will expire at the Annual Meeting. Nominees to serve as Class I directors are set forth below. All of the nominees currently serve as directors of the Company. Continuing members of the Board of Directors also are set forth below.

Mr. Joel R. Shepherd was appointed to the Board effective January 1, 2015, upon consummation of the merger of MainStreet Bankshares, Inc. into the Company. He is being nominated as a Class III director and is subject to election by the shareholders at the Annual Meeting in accordance with Virginia law. The term of office for current Class III directors will expire at the 2017 Annual Meeting, and, if elected, Mr. Shepherd will serve in such class for a two-year term expiring at the 2017 Annual Meeting. The number of Class III directors will be increased to four from three.

Robert A. Ward will retire from the Board of Directors pursuant to the Company's retirement policy for directors. His retirement will be effective at the Annual Meeting. Mr. Ward is eligible to be a Director Emeritus, and the Board of Directors, upon recommendation from its Corporate Governance and Nominating Committee, intends to appoint Mr. Ward as such for the period May 19, 2015 through May 17, 2016. Mr. Ward, age 74, is the retired Executive Vice President and Chief Financial Officer of Unifi, Inc. (textile), Greensboro, North Carolina.

Due to the retirement of Mr. Ward from the Board of Directors, the number of Class I directors will be reduced to four from five.

The persons named in the accompanying proxy will vote for the election of the nominees named below unless authority is withheld. If for any reason the persons named as nominees below should become unavailable to serve, an event that management does not anticipate, proxies will be voted for such other persons as the Board of Directors may designate.

The Board of Directors recommends the nominees, as set forth below, for election. The Board of Directors recommends that shareholders vote FOR these nominees. The election of each nominee requires the affirmative vote of a plurality of the shares of the Company's common stock cast in the election of directors.

The names of the nominees for election and the other continuing members of the Board of Directors, their principal occupations and qualifications to serve as directors, their ages as of December 31, 2014, and certain other information with respect to such persons are as follows:

Name	Principal Occupation	Age	Director Since
Nominees for election as Class I directors to continue in office until 2018 (Proposal One)			
	Adviser to Fenway Partners (private equity investments), New York, NY. Managing Director, Fenway Consulting Partners, LLC.		
Michael P. Haley	Mr. Michael Haley brings high level financial expertise as a former Chief Executive Officer of a publicly traded manufacturing company and as a current adviser to a private equity firm. He also brings experience in operations and risk management and public company corporate governance. His background helps him fill the role of financial expert on the Company's Audit Committee.	64	2002
	Executive Vice President, Averett University, Danville, VA.		
Charles S. Harris	Mr. Harris brings significant operational and financial management experience, including as the Director of Athletics for several universities of various sizes, both public and private. He brings diversity and a different perspective from his work with college students, the future customers for the Bank.	63	2008

Name	Principal Occupation	Age	Director Since
Franklin W. Maddux, M.D. FACP	Chief Medical Officer and Executive Vice President for Clinical and Scientific Affairs, Fresenius Medical Care North America (healthcare services), Waltham, MA, since December 2011. Senior Vice President and Chief Medical Information Officer, Fresenius Medical Care North America, from November 2009 to December 2011. Chairman, Gamewood Technology Group, Inc. (information technology service), Danville, VA. Dr. Maddux has significant and varied experience as a practicing physician, the chief executive of a medical clinic, the founder of an internet service provider, health information technology company and senior executive of a large publicly traded corporation. He brings an entrepreneurial perspective, as well as risk management and strategic planning experience.	57	2002
F.D. Hornaday, III	President and Chief Executive Officer, Knit Wear Fabrics, Inc. (circular knit manufacturer), Burlington, NC. A former director and vice chairman of MidCarolina Financial Corporation, which merged with the Company in July 2011. Mr. Hornaday brings his multifaceted experience as President of a textile company, adding to the Board's understanding of the challenges and opportunities facing manufacturing. In addition, his board service in the health industry and his former board service in the trust industry bring value to the Board.	64	2011

Name	Principal Occupation	Age	Director Since
Nominee for election as Class III director to continue in office until 2017 (Proposal Two)			
Joel R. Shepherd	President, Virginia Home Furnishings, Inc. (furniture retailer) and 220 Self Storage, Inc. (self-storage provider), Rocky Mount, VA. A former chairman of MainStreet BankShares, Inc. and Franklin Community Bank, N.A., Mr. Shepherd brings substantial entrepreneurial, construction, finance and management skills gained through his various enterprises. He also brings banking and investment experience. He was Vice President and Portfolio Manager in the Funds Management Division of Dominion Bankshares, Inc. (acquired by First Union Corporation) from 1986 to 1993.	51	2015
Directors of Class II to continue in office until 2016			
Fred A. Blair	President of Blair Construction, Inc. (general contractor), Gretna, VA. Mr. Blair brings experience as a small business owner, including his knowledge of and experience in commercial construction and development in the Company's market areas.	68	1992
Frank C. Crist, Jr., D.D.S.	President of Brady & Crist Dentists, Inc., Lynchburg, VA. Dr. Crist brings knowledge about the Lynchburg market area where he has built a successful dental practice, as well as investments in other businesses and real properties in the area. He also brings his prior experience as a director and, ultimately, Chairman of the board of directors of a community bank.	69	2006

Name	Principal Occupation	Age	Director Since
Claude B. Owen, Jr.	Retired Chairman and Chief Executive Officer of DIMON Incorporated (leaf tobacco dealer), Danville, VA. Mr. Owen brings broad experience in the management and oversight of public companies, including past service as Chairman and Chief Executive Officer of a publicly traded leaf tobacco dealer and as Chairman of a publicly traded grocery wholesaler. He also has significant experience in finance, strategic planning and corporate governance, which provides the Board with a substantial resource.	69	1984
John H. Love	President and Chief Executive Officer, W.E. Love & Associates, Inc. (insurance brokerage), Burlington, NC, since December 2011. President and Chief Operating Officer, W.E. Love & Associates, Inc., Burlington, NC from 1989 to December 2011. A former director of MidCarolina Financial Corporation, Mr. Love brings an expert perspective on risk management, mitigation and governmental regulation based on his experience as President of a large commercial insurance brokerage firm.	55	2011
Jeffrey V. Haley	President and Chief Executive Officer of the Company and the Bank since January 2013. President of the Company and President and Chief Executive Officer of the Bank from January 2012 to January 2013. Executive Vice President of the Company and President of the Bank from June 2010 to January 2012. President of Trust and Financial Services and Executive Vice President of the Bank from July 2008 to June 2010. Mr. Jeffrey Haley brings expertise based on more than 15 years in community banking and 15 years in the retail industry. His varied operational and management responsibilities during his banking tenure enable him to contribute a uniquely relevant perspective to the Board's deliberations.	54	2012

Name	Principal Occupation	Age	Director Since
Directors of Class III to continue in office until 2017			
Ben J. Davenport, Jr.	Chairman, First Piedmont Corporation (waste management), Chatham, VA. Chairman, Davenport Energy Inc. (petroleum distribution), Chatham, VA. Mr. Davenport brings his broad experience and perspective as an entrepreneur, owning and operating several highly successful businesses within the Company's market area. Having chaired the board of a major state university and the state chamber of commerce, he also brings strong experience in public policy.	72	1992
Charles H. Majors	Chairman of the Board of Directors of the Company and the Bank since January 2015. Executive Chairman of the Company and the Bank from January 2013 to January 2015. Chairman and Chief Executive Officer of the Company and Chairman of the Bank from January 2012 to January 2013. President and Chief Executive Officer of the Company and Chairman and Chief Executive Officer of the Bank from June 2010 to January 2012. President and Chief Executive Officer of the Company and the Bank from 1994 to June 2010. Mr. Majors brings his long tenure and experience as the Chief Executive Officer of the Company. His prior experience as a practicing corporate attorney provides significant expertise in risk management, regulatory, and legal issues.	69	1981
Dan M. Pleasant	Chief Operating Officer, The Dewberry Companies, Inc. (engineering, architectural and consulting), Fairfax, VA. Mr. Pleasant brings significant experience as a professional engineer working in the Company's market areas in Virginia and North Carolina. In addition, he is the Chief Operating Officer of a large national architectural, engineering and consulting firm. He is a past chairman of the Danville Utility Commission and is currently a board member of the Virginia Economic Development Partnership.	64	2011

Executive Officers

Information on the Company's only executive officer who is not a director is disclosed in Part I, Item 1, of the Company's Annual Report on Form 10-K for the year ended December 31, 2014, which was mailed with this proxy statement.

On December 19, 2014, the Company filed a Current Report on Form 8-K with the Securities and Exchange Commission ("SEC") to announce certain executive changes. In the filing, the Company announced that Charles H. Majors would retire from his role as Executive Chairman on December 31, 2014. As the final step in the Company's succession plan, he became non-executive Chairman of the Boards of the Company and the Bank and will continue to be involved in the strategic direction of both.

Board Independence

The Company's Board of Directors has determined that, except for Mr. Majors and Mr. Jeffrey Haley, each director is independent within the director independence standard of the NASDAQ Stock Market LLC ("NASDAQ"), as currently in effect, and within the Company's director independence standards, as established and monitored by the Company's Corporate Governance and Nominating Committee.

Michael P. Haley is not related to Jeffrey V. Haley, President and Chief Executive Officer of the Company and the Bank. In order to avoid any confusion, Michael P. Haley will be referred to as Michael Haley and Jeffrey V. Haley will be referred to as Jeffrey Haley in this proxy statement.

Board Members Serving on Other Publicly Traded Company Boards of Directors

Michael Haley has been a director of Stanley Furniture Company, Inc. since 2003, LifePoint Hospitals, Inc. since 2005, and Ply Gem Holdings, Inc. since 2006.

Board of Directors and Committees

Directors are expected to devote sufficient time, energy, and attention to ensure diligent performance of their duties, including attendance at board, committee, and shareholder meetings. The Board of Directors of the Company met 14 times during 2014. In accordance with the Company's Corporate Governance Guidelines, the independent directors held 11 executive sessions during 2014. The Chairman of the Corporate Governance and Nominating Committee presides at such sessions. The Board of Directors of the Bank, which consists of all members of the Company's Board, met 13 times during 2014.

All incumbent directors and director nominees attended at least 75% of the aggregate total number of meetings of the boards of directors and committees on which they served in 2014. All directors attended the 2014 Annual Meeting of Shareholders.

The Boards of Directors of the Company and the Bank have established various committees, including the Audit Committee, the Capital Management Committee, the Corporate Governance and Nominating Committee, the Human Resources and Compensation Committee, and the Risk and Compliance Committee. Membership and other information on these committees are detailed below.

The Audit Committee met four times in 2014. This Committee currently consists of Messrs. Blair, Maddux, Michael Haley, and Ward. Dr. Maddux serves as the Chairman. The Committee reviews significant audit, accounting and financial reporting principles, policies and practices; is directly responsible for engaging and monitoring the independent auditors of the Company; and provides oversight of the financial reporting and internal auditing functions. A more detailed description of the functions of this Committee is contained under the heading "Report of the Audit Committee." All of the members of this Committee are considered independent within the meaning of SEC regulations, the listing standards of NASDAQ, and the Company's Corporate Governance Guidelines. Michael Haley and Robert Ward, members of the Committee, are each qualified as an audit committee financial expert within the meaning of SEC regulations and the Board has determined that both have accounting and related financial management expertise within the meaning of the listing standards of NASDAQ.

The Capital Management Committee met four times in 2014. This Committee currently consists of Messrs. Michael Haley, Owen, Pleasant, and Ward. Mr. Ward serves as the Chairman. This Committee assists the Board in the following areas: market, interest rate, liquidity and investment risk; capital management; review of trends affecting the loan portfolio; oversight of the loan review function and credit policy; review of the adequacy of the allowance of loan losses; and dividend and securities related matters.

The Corporate Governance and Nominating Committee met six times in 2014. This Committee currently consists of Messrs. Crist, Hornaday, Maddux, and Owen. Mr. Owen serves as the Chairman. The Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of the Company's Corporate Governance Guidelines. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also supervises the Board's annual review of director independence, oversees the Board's performance self-evaluation and makes recommendations to the Board of Directors regarding director compensation. All the members of this Committee are considered independent within the meaning of SEC regulations, the listing standards of NASDAQ, and the Company's Corporate Governance Guidelines.

The Human Resources and Compensation Committee met six times in 2014. The Committee currently consists of Messrs. Davenport, Michael Haley, Love, and Pleasant. Mr. Michael Haley serves as the Chairman. This Committee is responsible for establishing and approving the compensation of executive officers of the Company, except for the compensation of the Chief Executive Officer. The compensation of the Chief Executive Officer is reviewed, discussed, and approved by the independent members of the Board of Directors, upon recommendation of the Committee. The Committee also makes recommendations to the Board of Directors regarding promotions and related personnel matters. The Committee oversees succession planning for the Chief Executive Officer and makes recommendations to the Board of Directors regarding succession. The Committee also reviews and approves the travel related expenses of the Chief Executive Officer. Reference is made to the "Compensation Discussion and Analysis" section of this proxy statement for further information on the duties and responsibilities of this Committee. No member of the Human Resources and Compensation Committee is a current officer or employee of the Company. All members of this Committee are considered independent within the meaning of SEC regulations, the standards of NASDAQ, and the Company's Corporate Governance Guidelines.

The Risk and Compliance Committee met four times in 2014. This Committee currently consists of Messrs. Blair, Crist, Harris, and Love. Mr. Harris serves as the Chairman. The Committee reviews all aspects of regulatory compliance and significant operational risk and security related matters. These risks include, but are not limited to, information security, fraud, physical security, insurance, and vendor management. This Committee is focused on the development and evolution of enterprise risk management oversight.

The charters of the Board Committees are available on the Company's website, www.amnb.com. For access to the charters, select the "Investor Relations" icon, then select "Governance Documents."

Compensation Committee Interlocks and Insider Participation

No member of the Human Resources and Compensation Committee or executive officer of the Company has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

Director Nominations Process

The Company's Board of Directors has adopted, as a component of its Corporate Governance Guidelines, a process related to director nominations (the "Nominations Process"). The purpose of the Nominations Process is to describe the manner by which candidates for possible inclusion in the Company's recommended slate of director nominees are selected. The Nominations Process is administered by the Corporate Governance and Nominating Committee of the Board.

The Committee considers candidates for Board membership suggested by its members, other Board members, management, and shareholders. A shareholder who wishes to recommend a prospective nominee for the Board may, at any time, notify the Company's President or any member of the Committee in writing with supporting material the shareholder considers appropriate. The Committee will consider the shareholder's recommendation and will decide whether to recommend to the Board the nomination of any person recommended by a shareholder pursuant to the provisions of the Company's bylaws relating to shareholder proposals, as described in the "Shareholder Communications and Proposals" section of this proxy statement.

Once the Committee has identified a candidate, it makes an initial determination whether to conduct a full evaluation of the candidate based on information accompanying the recommendation and the Committee members' knowledge of the candidate, which may be supplemented by inquiries to the person making such recommendation or to others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the candidate can satisfy the evaluation factors established in the Corporate Governance Guidelines. The Committee may seek additional information about the candidate's background and experience. The Committee then evaluates the candidate against the criteria in the Company's Corporate Governance Guidelines, including, but not limited to, independence, availability for time commitment, skills such as an understanding of the financial services industry, general business knowledge and experience, all in the context of an assessment of the perceived needs of the Board at that point in time. The Committee does not have a formal policy with respect to diversity on the Board. However, it considers diversity as a prerequisite for adequately representing the interests of the various stakeholders in the Company – shareholders, customers, and employees. The Committee seeks diversity in overall board composition. In the Committee's nominee considerations, diversity is a much broader concept than just the traditional racial and gender dimensions, as it also includes education, geography, business and professional experience and expertise, and civic involvement and responsibility, especially within the Company's market area. In connection with this evaluation process, the Committee determines whether to interview the candidate, and if warranted, one or more members of the Committee will conduct such interview. After completing the evaluation, the Committee makes a recommendation to the Board of Directors as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation of the Committee.

Corporate Governance and Risk Oversight Practices

In a financial institution, the role of the Board is critical to the success or failure of the enterprise. The Board of Directors is led by the Company's Chairman, Mr. Majors. The Chairman of the Corporate Governance and Nominating Committee, Mr. Owen, functions as the lead independent director. He chairs the Board in the absence of the Chairman and the Chief Executive Officer or when the Board's independent directors meet in executive session. Mr. Owen is a retired Chairman and Chief Executive Officer of a publicly traded tobacco company and a former non-executive board chairman of another public company, and his background and experience prepare him well for this role. Meetings of the independent directors are held numerous times throughout the year.

This structure has evolved incrementally over the past 20 years, during the tenure of Mr. Majors as Chief Executive Officer. In the opinion of the Board, it has served the interests of the shareholders, customers, employees and regulators well, as vouched by the Company's consistently strong asset quality, earnings, and total return to shareholders.

The Board of Directors of a financial institution is the strategic linchpin in the risk oversight process. Financial institutions deal with credit risk, liquidity risk, interest rate risk, investment risk, operational risk, reputation risk, and regulatory risk in the day to day conduct of banking business. In order to better manage the risk oversight process, over the past few years the Board has evolved and enhanced its supervision oversight process.

As part of that evolution, there are now three standing Board committees whose focus is specifically risk management and oversight: the Audit Committee, the Capital Management Committee, and the Risk and Compliance Committee. The Audit Committee is primarily concerned with financial reporting and internal control related risks. The Capital Management Committee is primarily concerned with market risk, interest rate risk, liquidity risk and investment risk, as well as the Bank's capital management process. The Risk and Compliance Committee is primarily concerned with developing an enterprise wide risk management strategy. Its focus is mainly related to operational and regulatory compliance risk. The Board's Committee efforts are supplemented and supported by the Enterprise Risk Management Committee, which is comprised of members of senior management and the Chairman of the Board.

In the opinion of the Board, this structure provides for a constantly evolving and improving approach to risk oversight.

Board Tenure Policy

The Board of the Company has a long-standing policy for the Company and the Bank with respect to the tenure of directors. In summary, it provides for the following:

- No director will allow himself to be nominated for reelection to the Board of the Company after reaching the age of 72;
- No director will allow himself to be nominated for reelection to the Board of the Bank, unless at the time of such reelection he was eligible to serve as a director of the Company;
- Any director who retires or resigns from or severs his current employment, or relocates outside the market area of the Bank, will tender his resignation. The Board may accept the resignation, delay acceptance, or decline to accept it;

No inside director will continue to serve as a director after his retirement, resignation or other severance of employment status. However, the Board may waive this requirement if it is deemed in the best interests of the Company or the Bank;
No director will be eligible for reelection if he is absent from all meetings for the 12-month period preceding the Annual Meeting of Shareholders at which such election would be held; and
Any former director may be elected as a Director Emeritus for a one year term, but may not serve more than three years or be elected after reaching age 75. A Director Emeritus will be entitled to attend and participate in Board meetings, but will not be eligible to vote and his presence will not be considered in the determination of a quorum.

SECURITY OWNERSHIP

The table below includes information on all shareholders of the Company known to management to beneficially own 5% or more of the Company's common stock.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned (#)(1)	Investment Power (1)			Voting Power (1)			Percent of Class (%)
		Shared	Sole	None	Shared	Sole	None	
BlackRock, Inc. 55 East 52nd Street New York, New York 10022 (2)	519,677	-	519,677	-	-	497,862	-	6.0%

---

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934 under which, in general, a person is deemed to be the beneficial owner of a security if he has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he has the right to acquire beneficial ownership of the security within 60 days.

(2) Other than percent of class, this information is based solely upon information as of December 31, 2014 contained in a Schedule 13G/A filed by BlackRock, Inc. with the Securities and Exchange Commission on January 29, 2015 relating to the beneficial ownership of the Company's common stock by BlackRock, Inc. and entities affiliated with BlackRock, Inc. In calculating percent of class, the shares of common stock issued on January 1, 2015 in connection with the Company's acquisition of MainStreet BankShares, Inc. were taken into consideration.

The following table sets forth, as of April 3, 2015, the beneficial ownership of the Company's common stock by all directors and nominees for director, all executive officers of the Company named in the Summary Compensation Table on page 22 of this proxy statement, and all directors and executive officers of the Company as a group.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned (#) (1)		Percent of Class (%)
Fred A. Blair	14,904	(2)	*
Frank C. Crist, Jr., D.D.S.	106,080	(2)	1.22
Ben J. Davenport, Jr.	47,261		*
Jeffrey V. Haley	37,710	(2)(4)	*
Michael P. Haley	4,210		*
Charles S. Harris	4,139		*
F. D. Hornaday, III	24,070	(2)	*
John H. Love	18,379		*
Franklin W. Maddux, M.D. FACP	9,866	(2)	*
Charles H. Majors	62,140	(2)	*
Claude B. Owen, Jr.	23,878	(2)	*
Dan M. Pleasant	4,957		*
Joel R. Shepherd	63,766	(2)	*
William W. Traynham	18,530	(3)(4)	*
Robert A. Ward	24,312	(2)	*
All directors and executive officers as a group (15)	464,202	(5)	5.32

---

* Represents less than 1% ownership.

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934 under which, in general, a person is deemed to be the beneficial owner of a security if he has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he has the right to acquire beneficial ownership of the security within 60 days.

(2) Includes shares held by affiliated companies, close relatives, minor children, and shares held jointly with spouses or as custodians or trustees, as follows: Mr. Blair, 199 shares; Dr. Crist, 959 shares; Mr. Jeffrey Haley, 840 shares; Mr. Hornaday, 2,072 shares; Dr. Maddux, 300 shares; Mr. Majors, 4,454 shares; Mr. Owen, 4,200 shares; Mr. Shepherd, 630 shares, and Mr. Ward, 5,207 shares.

(3) Includes shares that may be acquired pursuant to currently exercisable stock options: Mr. Traynham, 2,000 shares; all directors and executive officers as a group, 2,000 shares. These shares cannot be voted at the Annual Meeting.

(4) Includes shares of restricted stock awarded: Mr. Jeffrey Haley, 14,469 shares; and Mr. Traynham, 10,530 shares; all executive officers as a group, 24,999 shares. The shares are subject to a vesting schedule, forfeiture risk and other restrictions. These shares can be voted at the Annual Meeting.

(5) None of the above name beneficial owners have pledged their shares as collateral.

COMPENSATION COMMITTEE REPORT

The Human Resources and Compensation Committee of the Board of Directors has reviewed and discussed with management the Company's Compensation Discussion and Analysis. Based upon this review and discussion, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's definitive proxy statement on Schedule 14A for its Annual Meeting, which is incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as filed with the Securities and Exchange Commission.

Respectfully submitted,

Michael P. Haley, Chairman
Ben J. Davenport, Jr.
John H. Love
Dan M. Pleasant

COMPENSATION DISCUSSION AND ANALYSIS

The Company's Executive Compensation Philosophy

The purpose of the Company's compensation philosophy is to treat employees fairly and to pay compensation at a level commensurate with the market, given individual and Company factors and performance. The Company's compensation programs, levels, practices, and policies are consistent with the Company's values, culture and mission. The Company supports a pay-for-performance culture, creation of an environment where employees can succeed, and values, long-standing, productive employee service.

The Human Resources and Compensation Committee of the Board of Directors is responsible for establishing and approving the compensation of the executive and senior officers of the Company, except for the compensation of the Chief Executive Officer, which is approved by the independent members of the Board of Directors. In 2014, the compensation of the Executive Chairman was also approved by the independent members of the Board of Directors. The Committee considers a variety of factors and criteria in arriving at its decisions and recommendations for compensation. The Committee's objective is to attract and retain a superb leadership team with market-competitive compensation and to align the team member's interests with those of the Company, its customers and its shareholders. Accordingly, a significant portion of the Company's executive officers' compensation is directly and materially linked to operating performance. In particular, cash bonuses and incentive payments are heavily dependent on meeting or exceeding Company performance goals as well as objective and subjective criteria related to the executive officer's area of responsibility.

Each director who served on the Committee during 2014 qualifies as a "non-employee director" as such term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934 and is an "independent director" as such term is defined in NASDAQ Marketplace Rule 5605(a)(2).

The Committee considers the results of the shareholder advisory say-on-pay vote in its deliberations regarding compensation of the named executive officers. At the Company's 2014 Annual Meeting, 77.8% of shareholders who voted at the meeting voted for the approval of the compensation levels and programs provided to the named executive officers.

Role of Compensation Consultant

During 2014, the Committee retained the services of Pearl Meyer & Partners, LLC ("PM&P"), an independent executive compensation consulting firm, to provide consulting services in connection with developing the Company's compensation philosophy and providing a competitive compensation review with respect to executive management, a larger group than the named executive officers. Management was not involved in the decision to use an outside consultant or the selection of PM&P.

The compensation review encompassed (i) the development of a custom peer group consisting of community banks of comparable size in Virginia and contiguous states, publicly traded, with assets between $600 million and $4 billion; (ii) an assessment of the Company's executive compensation as compared to market (similar executives in the peer group); (iii) a high level assessment of the Company's performance relative to peers; and (iv) establishing a basis for discussing potential pay or other compensation changes in future periods. The review determined that overall cash compensation approximated the market median, but total compensation was below market because of a lack of long-term incentives and supplemental retirement benefits. Based on such information, the Board of Directors and the Committee determined to establish, for 2015, for members of executive management a formalized incentive program and the opportunity to participate in a nonqualified deferred compensation plan.

During 2014, PM&P reported directly to the Committee and did not provide any other services to the Company. The Committee has analyzed whether the work of PM&P has raised any conflicts of interest, taking into consideration the following factors, among others: (i) the provision of other services to the Company by PM&P (none); (ii) the amount of fees from the Company paid to PM&P as a percentage of PM&P's total revenues; (iii) PM&P's policies and procedures that are designed to prevent conflicts of interest; (iv) any business or personal relationship of PM&P or the individual compensation advisors employed by PM&P with an executive officer of the Company; (v) any business or personal relationship of the individual compensation advisors with any member of the Committee; and (vi) any stock of the Company owned by PM&P or the individual compensation advisors employed by PM&P. The Committee has determined, based on its analysis of the above factors, among others, that the work of PM&P and the individual compensation advisors employed by PM&P as compensation consultants or advisors to the Company has not created any conflicts of interest.

Salary

The base salary of each executive officer named in the Summary Compensation Table (the "named executive officers") is designed to be competitive with that of the Company's peer banks and bank holding companies. In establishing the base salaries for the named executive officers in 2014, the Committee and Board relied upon an evaluation of each officer's level of responsibility and performance and on comparative information, including the Virginia Bankers Association's Salary Survey of Virginia Banks and the SNL Bank Compensation Review. In establishing the base salary for the Chief Financial Officer, the only named executive officer other than the Chief Executive Officer, the Committee also received and took into account the individual compensation recommendation of the Chief Executive Officer. In executive session, the independent directors collectively evaluated the performance of the Chief Executive Officer, especially as his performance inured to the benefit of the shareholders. The Chairman of the Committee met with the Chief Executive Officer to review the results of the evaluation after the Committee discussion. The 2014 salary of the Chief Executive Officer was ultimately reviewed, discussed, and approved by the independent members of the Board of Directors in executive session, upon recommendation of the Committee. The same basic methodology that was used for the Chief Executive Officer was applied to the Executive Chairman's compensation.

In establishing the base salaries of the Chief Executive Officer and the Chief Financial Officer for 2015, the Committee and the independent members of the Board of Directors took into account the information described above that was provided by PM&P, including the peer group data. No base salary was established for Mr. Majors due to his retirement as an employee of the Company effective December 31, 2014.

Profit Sharing and Performance Compensation Programs

The Company has a profit sharing program that is designed to recognize and reward the efforts of eligible qualified full-time employees for their contribution toward the attainment of the Company's financial goals. Also, there is a discretionary performance compensation program that is designed to recognize and reward Company officers, including the named executive officers, whose achievements resulted in a positive impact to the Company.

Both the profit sharing program and performance compensation program were active during 2014. In recognition of the aggregate efforts of the Company's employees, the Board approved in late December 2014 an across the board profit sharing distribution to full-time employees equal to 2.5% of their earned base salary for the year ended December 31, 2014, which was paid in January 2015. The named executive officers received payments under the profit sharing program on the same basis as other full-time employees. The final year of the bank wide profit sharing program is 2014. As noted in the "Executive Compensation Philosophy" section above, it is the intention of the Company to foster a pay for performance culture, which will result in higher compensation for higher performing employees.

For 2015, and based on the information described above that was provided by PM&P, the Board of Directors and the Committee determined to establish an incentive program for executive officers. Pursuant to the terms of the program, the Company's executive officers may earn incentive payments for 2015 performance, with the targeted payout for the Chief Executive Officer set at an amount equal to 38.5% of his 2015 base salary and the targeted payout for the other executive officers set at an amount equal to 30% of their respective base salaries. Under the program, 50% of the targeted incentive payment is based on achievement of certain position specific objective goals and the other 50% is based on the achievement of certain specific financial performance metrics for the Company. The financial target is growth in core net income (defined as generally accepted accounting principles net income, less the impact of fair value and related merger adjustments). The financial performance incentive is subject to adjustment downward for missing the target and adjusting upward for achieving greater than expected results.

In addition, beginning in 2015, all of the Company's executive officers may participate in a voluntary, nonqualified deferred compensation plan pursuant to which the officers are able to defer any portion of their annual incentive payments. In addition, the Company may make discretionary contributions to the deferred compensation plan. The plan is administered through the Virginia Bankers Association.

In the opinion of the Committee and the Board of Directors, the Company's compensation practices do not encourage excessive or inappropriate risk taking and are not reasonably likely to have a material adverse effect on the Company, but rather will have a positive effect on the Company.

Stock Compensation Plans

The Company maintains the 2008 Stock Incentive Plan ("2008 Plan"), which is designed to attract and retain qualified key personnel, provide employees with a proprietary interest in the Company as an incentive to contribute to the success of the Company, and reward employees for outstanding performance and the attainment of goals. The 2008 Plan was adopted by the Board of Directors of the Company on February 19, 2008 and approved by the shareholders on April 22, 2008 at the Company's 2008 Annual Meeting. The 2008 Plan provides for the granting of restricted stock awards and incentive and non-statutory options to employees and directors on a periodic basis, at the discretion of the

Board or a Board designated committee. The 2008 Plan authorizes the issuance of up to 500,000 shares of common stock. The 2008 Plan replaced the Company's earlier stock option plan that was approved by the shareholders at the 1997 Annual Meeting and expired in December 2006 (the "1997 Option Plan").

The 2008 Plan is administered by a Committee of the Board of Directors of the Company comprised of the independent directors. Under the 2008 Plan, the Committee determines which employees will be granted restricted stock awards and options, whether such options will be incentive or non-statutory options, the number of shares subject to each option, whether such options may be exercised by delivering other shares of common stock, and when such options become exercisable. In general, the per share exercise price of an incentive stock option must be at least equal to the fair market value of a share of common stock on the date the option is granted. Restricted stock is granted under terms and conditions established by the Committee.

Stock options become vested and exercisable in the manner specified by the Committee. Each stock option or portion thereof shall be exercisable at any time on or after it vests and is exercisable until ten years after its date of grant. No stock options have been backdated or repriced. As of December 31, 2014, 11,000 shares remain exercisable under the 1997 Option Plan and 37,000 shares are exercisable under the 2008 Plan, and options for 99,947 shares are exercisable under options assumed in the MidCarolina Financial Corporation ("MidCarolina") merger. The MidCarolina shares will be issued from the 2008 Plan. There were no stock options awarded in 2014.

The Company from time-to-time grants shares of restricted stock to key employees and non-employee directors. The Company believes the awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company's stock. The value of the stock awarded is based on the fair market value of the Company's common stock at the time of the grant, which is the closing price of the stock on the NASDAQ Global Select Market on the grant day. The Company recognizes expense, equal to the total value of such awards, proportionately over the vesting period of the stock grants.

The grants of restricted stock do not have performance conditions that must be satisfied in order for the shares to be earned and vest 24 or 36 months after the award date. On January 21, 2014, the Company awarded an aggregate of 11,544 shares of restricted stock to Mr. Jeffrey Haley, Mr. Traynham and 13 other senior bank officers.

Nonvested restricted stock for the year ended December 31, 2014 is summarized in the following table.

Restricted Stock	Shares	Weighted Average Grant Date Value
Nonvested at January 1, 2014	33,350	$19.77
Granted	13,814	$24.09
Vested	(5,602)	$18.39
Forfeited	-	-
Nonvested at December 31, 2014	41,562	$21.39

As of December 31, 2014, there was $327,000 of total unrecognized compensation cost related to nonvested restricted stock granted under the 2008 Plan. This cost is expected to be recognized over the next 12 to 30 months.

The summary stock option plan table is referenced in Part II, Item 5 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014, and is contained in Note 13 to the Company's audited financial statements for the year ended December 31, 2014 included in such Form 10-K.

Deferred Compensation

The Bank entered into a deferred compensation agreement with Charles H. Majors, the Company's current Chairman and former Chief Executive Officer, initially as of February 22, 1993, and most recently amended and restated as of December 31, 2008. The agreement requires an annual payment of $50,000 for a period of ten years to Mr. Majors or his designated beneficiary, commencing within three months of his termination of employment or death, whichever occurs first. The amount of this payment is fixed and the funds for this payment are not established in an account that allows for additional contributions or earnings growth. Mr. Majors is an unsecured creditor for the payments under this agreement. Payments under this agreement are independent of, and in addition to, those under any other plan, program, or agreement between Mr. Majors and the Company or the Bank. Mr. Majors will receive his first payment on July 1, 2015. There were no deferred compensation arrangements with any of the other named executive officers in 2014.

Retirement Plan

Through December 31, 2009, the Company's retirement plan was a non-contributory defined benefit pension plan that covered all full-time employees of the Company who were 21 years of age or older and who had at least one year of service. Advanced funding of the plan was accomplished by using the actuarial cost method known as the "collective aggregate cost method".

The plan was closed to new participants at December 31, 2009. On that date, the Company converted the plan to a cash balance plan. Participant balances at that date reflected the net present value of the plan's then existing obligation to the participants. Beginning January 1, 2010, participants earn each year, with some adjustments, income based on the ten year U.S. Treasury note yield established at December 31 of the prior year.

401(k) Employee Savings Plan

The Company sponsors a 401(k) Employee Savings Plan in which all full-time employees (age 21 and older) are eligible to participate. The Company matches 100% of employee contributions on the first 3% of earned compensation and 50% of employee contributions of the second 3% of earned compensation. Perquisites received by executive officers are not included as earned compensation under this plan. The Company's contributions are not subject to a vesting schedule.

Perquisites

Due to the geographic size of the Company's market area, in 2014 the Company provided the Executive Chairman and Chief Executive Officer each with an automobile, and reimbursed the officers for the cost of fuel and maintenance for the vehicles other than the estimated amount of personal use of the vehicles. In 2015, such arrangement will continue for the Chief Executive Officer. There is no tax gross-up provided by the Company for any employee perquisites.

Other Benefit Plans

Executive officers participate in the Company's benefit plans on the same terms as other employees. These plans include medical, dental, life, and disability insurance. The Company provides life insurance coverage equal to four times the employee's salary for all eligible employees. Coverage in excess of $50,000 is subject to taxation paid by the employee based on Internal Revenue Service guidelines.

Executive Employment Agreements and Change in Control Arrangements

The Company recognizes that, as a publicly held financial services company, it is imperative that it maintain stability and continuity in its executive management positions. The Company also understands that the possibility of a change in control of the Company exists. In order to protect the interests of the shareholders and the Company, to promote continuity in the event of a change in control and to minimize uncertainty among executive management, the Company and certain executive officers have entered into employment agreements that contain severance arrangements in connection with a change in control of the Company. Mr. Jeffrey Haley and Mr. Traynham are the only named executive officers that currently have operative employment agreements.

On March 2, 2015, the Company entered into separate employment agreements with Mr. Jeffrey Haley and Mr. Traynham to continue in their current positions with the Company and the Bank.

Each agreement has an initial three year term that extends through December 31, 2017. On January 1, 2017, Mr. Traynham's agreement begins to renew automatically on a daily basis so that the term of employment always has at least one year to run. Mr. Jeffrey Haley's agreement begins to renew automatically on a daily basis on January 1, 2016, so that the term of employment always has at least two years to run. Each agreement will automatically terminate on the first day of the month immediately following the month in which the officer turns 70.

The Company may give Mr. Traynham notice of nonrenewal of his agreement at any time on or after January 1, 2017, and the agreement will terminate one year thereafter, but not before completion of the initial three year term. In the case of Mr. Jeffrey Haley, notice of nonrenewal may be given on or after January 1, 2016 due to the two year evergreen provision and it will terminate two years later.

The agreements provide that each officer's base salary will be reviewed annually, and they will be entitled to participate in such short-term and/or long-term cash and equity incentive plans as the Company may determine.

If the Company terminates the officer's employment for any reason other than for "Cause" or if the officer terminates his employment for "Good Reason" (each as defined in the agreement), the Company will, subject to the officer's execution and non-revocation of a general release of claims, make a lump sum payment in an amount equal to the product of (x) the officer's "Final Monthly Compensation" (defined in the agreement as the sum of the officer's base salary in effect at the date of termination and the annual bonus paid or payable for the most recently completed year, divided by twelve) times (y) the number of months remaining between the date of termination and the expiration of the current employment term. The Company will also make a lump sum payment in an amount equal to the product of (x) the amount of the monthly group insurance premiums contributed by the Company for the officer's health, dental and vision insurance coverage (exclusive of the amounts paid by the officer for such coverage) (the "COBRA Premium") times (y) the number of months remaining between the date of termination and the expiration of the current employment term. Upon termination of employment, each officer will be subject to certain noncompetition and nonsolicitation restrictions for one year.

The employment agreements include a double-trigger severance structure in the event of a change in control. If a change in control of the Company occurs and the officer's employment is terminated without Cause or for Good Reason within 24 months following the change in control, the following severance benefits will be paid: (i) the amount of any incentive or bonus compensation earned which has not been paid; (ii) a pro-rated bonus based on the prior year's cash bonus amount; (iii) a lump sum payment equal to 2.0 times Mr. Traynham's "Final Compensation" and 2.99 times Mr. Jeffrey Haley's "Final Compensation" (defined in the agreements as the base salary in effect at the date of termination plus the highest annual cash bonus paid or payable for the two most recently completed years); and (iv) a lump sum payment equal to the monthly COBRA Premium times 24 months in the case of Mr. Traynham and 36 months in the case of Mr. Jeffrey Haley.

Each agreement provides that the severance payments and benefits to which the officer may be entitled in connection with a change in control will be reduced to the amount that does not trigger the golden parachute excise tax under Section 4999 of the Internal Revenue Code of 1986. No reduction, however, will be made and the officer will be responsible for all excise and other taxes if his after-tax position with no cutback exceeds his after-tax position with a cutback by at least 5%.

Potential Payments upon Termination or Change in Control

If a change in control had occurred on December 31, 2014, and the named executive officers were terminated on that same date, the benefits that would be payable to each of the named executive officers under the terms of their executive severance agreements are identified in the following table. This hypothetical scenario would require payment of salary and bonus and coverage under the Company's healthcare, other insurance benefits, and pension plans through December 31, 2016. The benefits payable under any other change in control termination scenario would be less than or equal to the amounts shown.

Name	Salary (24 months) ($)	Bonus (24 months) ($)	Stock Awards (24 months) ($)	Other (24 months) ($)	Change in Pension Value (Lump sum) ($)
Charles H. Majors	-	-	-	-	-
Jeffrey V. Haley	680,000	200,000	100,000	19,352	57,092
William W. Traynham	423,500	45,000	80,000	21,978	-

The salary calculations are based on annualized salary amounts in effect as of December 31, 2014, which are then multiplied by two to reflect the continuation of such amounts for a period of 24 months. The information in the Bonus column is estimated as twice the amount of incentive pay earned in 2014. The information in the Stock Awards column is estimated as twice the value of the stock award granted to the executive officers in 2014. The information in the Other column is estimated as twice the amount provided to the executive officer in 2014 for healthcare and other insurance benefits. The Change in Pension Value is estimated as twice the 2014 amount reflected in the "Summary Compensation Table."

The amounts presented in the above table are based on the change in control agreements in effect as of December 31, 2014, which agreements have been superseded by employment agreements executed in January 2015, as discussed in the "Employment Agreements and Change in Control Arrangements" section above.

Mr. Majors retired as an employee effective December 31, 2014, and pursuant to the terms of his deferred compensation agreement discussed in the "Deferred Compensation" section above, he will receive annual payments of $50,000 for ten years beginning in July 2015.

Tax and Accounting Considerations

The Company's practice is to expense salary, bonus and incentive compensation, and benefit costs as they are incurred for tax and accounting purposes. Salary, bonus and incentive compensation, and some benefit payments are taxable to the recipient as ordinary income. The tax and accounting treatment of the various elements of compensation is not a major factor in the Company's decision making with respect to executive compensation. To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the Committee has not adopted a policy requiring all compensation to be deductible. The Company did not have any nondeductible compensation in 2014.

Security Ownership Guidelines and Hedging of Securities

Stock ownership guidance is in effect for executive officers of the Company. The Chief Executive Officer is expected to maintain stock ownership equal to at least three times his current base salary. The Executive Vice Presidents are expected to maintain stock ownership equal to at least two times their current base salary. No formal deadline has been set for compliance with the above guidelines. However, the executive officers are increasing their equity ownership in the Company as quickly as practical.

The Committee has adopted a policy which requires that any grants of restricted stock to executive officers be held by the grantee until fully vested, so long as she or he has achieved the overall ownership guidelines set by the Company. The Company does not have any policies regarding executive officers' hedging the economic risk of ownership of the Company's common stock.

Compensation Recovery Policy

Upon recommendation of the Human Resources and Compensation Committee, in June 2013, the Board of Directors approved a Compensation Recovery Policy. This policy allows the Company to recoup from an officer any portion of incentive-based compensation (cash, incentive/bonus awards and all forms of equity based compensation) as the Board deems appropriate if it is determined that such officer (either a current or former officer of the Company or the Bank) engaged in fraud, willful misconduct or violation of Company or Bank policy that caused or otherwise contributed to the need for a material restatement of the Company's financial results. Recommendations to recover any portion of incentive-based compensation will be presented to the Board by the Committee after review of all relevant facts and circumstances.

COMPENSATION TABLES

Summary Compensation Table

The following table reflects total compensation paid to or earned by the named executive officers for the periods indicated below. During 2014, the Company had no executive officers other than those named in the table. The named executive officers are the highest paid employees of the Company and the Bank.

In accordance with SEC rules, the amounts in the columns for stock awards reflect the grant date fair market value of the stock awards. Assumptions made in the calculation of these amounts are contained in Note 13 to the Company's audited financial statements for the year ended December 31, 2014, included in the Company's 2014 Annual Report on Form 10-K.

Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Stock Awards ($) (2)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($) (3)	All Other Compensation ($)	Total ($)
Charles H. Majors (4) (5)	2014	240,000	150,000	13,336	151,340	31,663	586,339
Chairman of the Company and the	2013	240,000	100,000	13,339	4,758	38,694	396,791
Bank	2012	371,280	100,000	58,333	197,602	42,552	769,767
Jeffrey V. Haley	2014	338,923	100,000	56,677	28,546	29,850	553,996
President and Chief Executive Officer	2013	300,000	50,000	40,008	(8,704)	35,851	417,155
of the Company and the Bank	2012	249,423	40,000	40,000	16,104	35,679	381,206
William W. Traynham	2014	211,232	22,500	43,345	-	23,454	300,531
Executive Vice President and Chief	2013	192,500	15,000	30,009	-	22,363	259,872
Financial Officer of the Company and the Bank	2012	192,163	10,000	28,333	-	21,963	252,459

---

(1) The Human Resources and Compensation Committee assessed the performance of the executive officer and the Company and awarded discretionary bonus payments commensurate with the officer's performance.

(2) Amounts shown represent the aggregate full grant date fair value of each award calculated in accordance with FASB ASC Topic 718. The assumptions made in the calculation of these amounts are contained in Note 13 to the Company's audited financial statements for the year ended December 31, 2014, included in the Company's 2014 Annual Report on Form 10-K.

(3) Since the pension plan was converted to a cash balance plan and frozen effective December 31, 2009, the assumptions used to determine the present value of accumulated benefit for each participant were changed so that the present value of accumulated benefit shown as of the end of that year was equal to the opening balance under the cash balance plan. This is the same amount that would have been payable under the prior plan had the participant terminated employment and elected a lump sum payment. There were no benefit increases for any

participant attributable to the cash balance plan conversion.

(4) The $151,340 and $197,602 change in pension value for Mr. Majors in 2014 and 2012, respectively, is attributable to an actuarial increase in benefits due to continued employment beyond normal retirement age ($85,822 (2014) / $94,457 (2012)) plus a reduction in interest rates used to determine the present value of the accumulated benefit ($65,518 (2014) / $103,145 (2012)). Interest rates may go up or down in the future, resulting in a corresponding decrease or increase in the present value of the accumulated benefit.

(5) Mr. Majors was Executive Chairman through December 31, 2014, at which time he retired as an employee. On January 1, 2015, he became non-executive Chairman of the Company and the Bank.

All other compensation includes company contributions to the 401(k) Employee Savings Plan for all named executive officers, and company paid insurance premiums for all named executive officers. It also includes a profit sharing distribution of 2.5%, 3.0% and 3.0% of their earned income in 2014, 2013 and 2012, respectively.

Grants of Plan-Based Awards

The following table provides information on the restricted stock awards granted to the named executive officers during the year ended December 31, 2014. The amounts in the column for the grant date fair value of the stock awards reflect the grant date fair market value of the stock awards. Assumptions made in the calculation of these amounts are contained in Note 13 to the Company's audited financial statements for the year ended December 31, 2014, included in the Company's 2014 Annual Report on Form 10-K. There were no stock options granted in 2014.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock (#) (1)	Grant Date Fair Value of Stock and Option Awards ($)
Charles H. Majors	-	-	-
Jeffrey V. Haley	01/21/2014	2,042	50,000
William W. Traynham	01/21/2014	1,634	40,000

---

(1) Restricted stock granted under the 2008 Stock Incentive Plan. The restricted stock awards vest 24 or 36 months after the date of issue. Restricted stock has no express performance criteria other than continued employment (with limited exceptions for termination of employment due to death, disability, retirement, reduction-in-force and change in control).

Outstanding Equity Awards at Fiscal Year-End

The following table reflects the outstanding stock and option awards as of December 31, 2014 for the named executive officers. All stock options awarded were granted at fair market value at the grant date and had a ten year expiration date. All restricted stock awards were granted at fair market value at the grant date and vest after 24 or 36 months.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Numbers of Securities Underlying Unexercised Unearned	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)	Market Value of Shares of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares That Have	Equity Incentive Plan Awards: Market Value of Unearned Shares That Have

			Options (#)					Not Vested (#)	Not Vested ($)
Charles H. Majors	-	-	-	-	-	-	-	-	-
	-	-	-	-	-				
Jeffrey V. Haley	-	-	-	-	-	8,083	170,000	-	-
	3,000	-	-	17.00	12/16/2018				
William W. Traynham	-	-	-	-	-	6,150	130,000	-	-
	2,000	-	-	16.00	04/21/2019				

23

Option Exercises and Stock Vested

The following table reflects stock options exercised in 2014 by the named executive officers and the value realized on exercise. There were no stock awards acquired on vesting in 2014.

	Option Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($) (1)
Charles H. Majors (2)	20,000	138,800
Jeffrey V. Haley (3)	3,000	21,780
William W. Traynham	-	-

(1) The value realized on exercise is the difference between the option exercise price and the closing price of the Company's common stock on the date of exercise multiplied by the number of options exercised.

(2) Mr. Majors exercised options on November 25, 2014 for 20,000 shares originally granted on December 16, 2008 with an exercise price of $17.00. The closing price of the Company's common stock at the date of exercise was $23.94.

(3) Mr. Jeffrey Haley exercised options on November 24, 2014 for 3,000 shares originally granted on December 16, 2008 with an exercise price of $17.00. The closing price of the Company's common stock at the date of exercise was $24.26.

Pension Benefits

The following table reflects the actuarial present value of the named executive officers' accumulated benefits under the Company's former pension plan and the number of years of service earned and credited under the plan as of December 31, 2009, which was the final year of the plan.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)
Charles H. Majors	Pension	17	1,234,472
Jeffrey V. Haley	Pension	13	229,444
William W. Traynham (1)	Pension	-	-

(1) Mr. Traynham joined the Company in 2009 and the pension plan was closed to new participants before he became eligible for any credited service or accumulated benefit under the plan.

There were no payments made from the pension plan to any of the named executive officers during 2014.

Nonqualified Deferred Compensation

The Nonqualified Deferred Compensation Table is not presented since the Company does not offer a deferred compensation plan that requires or allows any named executive officer to make annual contributions, nor does it have a fund of monies established for any named executive officer that increases in value due to earnings on that fund.

Director Compensation

In December 2011, the Board amended its Corporate Governance Guidelines to include the recommendation that each director receive at least a portion of his or her compensation in restricted stock until such director owns shares of the Company's common stock with a relative market value equal to at least two times the average annual compensation for all directors. All directors currently meet or exceed such ownership guidelines.

During 2014, directors of the Company were eligible to receive their monthly retainer in the form of either (i) $1,250 in cash, (ii) shares of restricted stock with a market value of $1,562.50, or (iii) a combination of $450 in cash and shares of restricted stock with a market value of $1,000. These amounts or shares were paid or distributed quarterly. The attendance fee for each committee meeting or Bank board meeting is $600 in cash or restricted stock with a market value of $750, also paid or distributed quarterly. In addition, the chairmen of the five standing board committees of the Company receive annual retainers. The chairman of the Audit Committee receives $2,000 in cash or shares of restricted stock with a market value of $2,500. The chairmen of the Capital Management Committee, Corporate Governance and Nominating Committee, Human Resources and Compensation Committee and Risk and Compliance Committee receive $1,200 in cash or shares of restricted stock with a market value of $1,500. During 2012, the Board approved an unfunded, nonqualified deferred compensation plan within the meaning of Section 409A of the Internal Revenue Code. This plan grants the outside directors the option to defer cash or restricted stock compensation. To date, three of the outside directors have elected this option.

Board policy requires the directors to retain ownership of any shares received under this arrangement as long as they are on the Board of Directors. All dividends paid on the shares are reinvested. The purpose of the stock for fees payment option is to encourage greater equity ownership in the Company and, thereby, further align the interests of each director with the interests of the shareholders at large. The Board of Directors sets the retainer and attendance fee based upon recommendation from the Corporate Governance and Nominating Committee. In making its recommendation, the Committee reviews the director compensation of peer banks. There is no tax gross-up provided by the Company for any director compensation. Non-employee directors living outside the Danville area are reimbursed for meeting-related travel and lodging expenses. Non-employee directors were excluded from the Company's retirement plan and, therefore, do not qualify for pension benefits. Directors who are employees of the Company do not receive any director compensation.

No changes are planned in director compensation for 2015. However, in 2015, Mr. Majors in his role as non-executive Chairman of the Company and the Bank will receive director fees of $37,500 per quarter. Mr. Majors is expected to maintain an active engagement with potential merger and acquisitions opportunities and will be expected to devote a significant amount of his time to Board governance, risk oversight, advisory and administrative matters. The Board expects that Mr. Majors will devote approximately 50% of a full time equivalent work week to the Company's business. He will not receive any employee compensation, restricted stock, or the other fees customarily paid to the directors.

The following table reflects the director compensation earned or paid during 2014.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1) (2) (3) (4)	Total ($)
Fred A. Blair	-	36,000	36,000
Frank C. Crist, Jr., D.D.S.	-	35,250	35,250
Ben J. Davenport, Jr.	-	33,750	33,750
Jeffrey V. Haley	-	-	-
Michael P. Haley	-	42,000	42,000
Charles S. Harris	11,400	18,750	30,150
F.D. Hornaday, III	-	37,500	37,500
Lester A. Hudson, Jr., Ph.D. (5)	-	13,063	13,063
John H. Love	19,800	12,000	31,800
Franklin W. Maddux, M.D.	-	35,500	35,500
Charles H. Majors	-	-	-
Martha W. Medley (6)	1,800	8,500	10,300
Claude B. Owen, Jr.	-	43,500	43,500
Dan M. Pleasant	-	37,500	37,500
Robert A. Ward	-	36,750	36,750
Total	33,000	390,063	423,063

---

(1) Restricted stock was awarded with a market value of $1,562.50 for the monthly retainer, and $750 per committee meeting or Bank board meeting, issued quarterly based on the closing price of the Company's common stock on the first market day of the third month of the quarter. In addition, restricted stock was awarded with a market value of $2,000 for the annual retainer for the chairman of the Audit Committee, and $1,500 for the annual retainer for the chairmen of the Capital Management Committee, Corporate Governance and Nominating Committee, Human Resources and Compensation Committee and Risk and Compliance Committee, issued annually based on the closing price of the Company's common stock on the first market day of the sixth month of the year.

(2) Restricted stock awarded in 2014: Mr. Blair, 1,591 shares; Dr. Crist, 1,558 shares; Mr. Davenport, 1,492 shares; Mr. Michael Haley, 1,856 shares; Mr. Harris, 828 shares; Mr. Hornaday, 1,657 shares; Dr. Hudson, 572 shares; Mr. Love, 531 shares; Dr. Maddux, 1,573 shares; Mr. Owen, 1,924 shares; Mr. Pleasant, 1,654 shares; and Mr. Ward, 1,624 shares.

(3) Messrs. Michael Haley, Hudson and Pleasant have elected to defer stock awards under a non-qualified deferred compensation plan.

(4) In accordance with SEC rules, the amounts in the column for stock awards reflect the grant date fair market value of the stock awards. Assumptions made in the calculation of these amounts are contained in Note 13 to the Company's audited financial statements for the year ended December 31, 2014, included in the Company's 2014 Annual Report on Form 10-K.

(5) Dr. Hudson retired from the Board of Directors effective at the 2014 Annual Meeting. He served as Director Emeritus from May 20, 2014 through May 19, 2015. He received $16,938 in compensation (754 shares (all shares deferred)) through December 31, 2014 for this service.

(6) Mrs. Medley did not seek reelection to the Board of Directors at the 2014 Annual Meeting.

RELATED PARTY TRANSACTIONS

In the ordinary course of its business, the Bank makes loans to, accepts deposits from, and provides other banking services to, certain directors and executive officers of the Company, their associates, and members of their immediate families. Loans are made on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable loans with persons not affiliated with the Bank, and do not involve more than the normal risk of collectability or present other unfavorable features. Such loans are processed through the Bank's normal credit approval procedures, but ultimate approval authority rests with the Board of Directors of the Bank. Rates paid on deposits and fees charged for other banking services and other terms of these transactions, are also the same as those prevailing at the time for comparable transactions with persons not affiliated with the Bank. The Bank expects to continue to enter into transactions in the ordinary course of business on similar terms with the directors, officers, principal shareholders, their associates, and members of their immediate families. Loans outstanding to such persons at December 31, 2014 and 2013 totaled $15,532,000 and $19,227,000, respectively. None of such loans have been on non-accrual status, 90 days or more past due, or restructured at any time.

From time to time the Company may also enter into other types of business transactions or arrangements for services with the Company's directors, officers, principal shareholders or their associates. These types of transactions or services might include, among others, purchases of equipment or provision of legal services. The Company will only enter into such arrangements if it is determined that the prices or rates offered are comparable to those available to the Company from unaffiliated third parties. Management approves such transactions on a case by case basis. The Company does not have written policies or procedures with respect to such approvals. As of December 31, 2014, the Company has no such reportable transactions.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee assists the Board of Directors in its oversight of (1) the integrity of the Company's financial statements and its financial reporting and disclosure practices, (2) the appointment, compensation, retention and oversight of the independent accountants engaged to prepare or issue an audit report on the financial statements of the Company, (3) the soundness of the Company's systems of internal controls regarding finance and accounting compliance, and (4) the independence and performance of the Company's internal audit staff. The Committee strives to provide an open avenue of communication between the Board of Directors, management, the internal auditor, and the independent accountants.

All of the members of this Committee are considered independent within the meaning of SEC regulations, the listing standards of NASDAQ, and the Company's Corporate Governance Guidelines. Additionally, each member is considered an "independent director," as that term is defined by NASDAQ Marketplace Rule 5605(a)(2).

Mr. Michael Haley and Mr. Ward, members of the Committee, are each qualified as an audit committee financial expert within the meaning of SEC regulations and the Board has determined that both have accounting and related financial management expertise within the meaning of the listing standards of NASDAQ.

The Audit Committee has reviewed and discussed with management the Company's audited consolidated financial statements as of and for the year ended December 31, 2014. The Committee has discussed with Yount, Hyde and Barbour, P.C., the Company's independent registered public accounting firm during fiscal year 2014, the matters required to be discussed by the auditing standards of the Public Company Oversight Board, including Auditing Standard No. 16, Communications with Audit Committees, regarding the conduct of the audit. The Audit Committee has also received written disclosure regarding the firm's independence.

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the Company's audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, and be filed with the SEC.

The Audit Committee pre-approves all audits, audit-related, and tax services on an annual basis, and, in addition, authorizes individual engagements that exceed pre-established thresholds. Any additional engagement that falls below the pre-established thresholds must be reported by management at the Audit Committee meeting immediately following the initiation of such an engagement.

A copy of the Audit Committee charter is available on the Company's website, www.amnb.com. For access to the charter, select the "Investor Relations" icon, then select "Governance Documents."

Respectfully submitted,

Fred A. Blair
Michael P. Haley
Robert A. Ward
Franklin W. Maddux, M.D., Chairman

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors of the Company annually considers the selection of the Company's independent public accountants. On March 9, 2015, the Audit Committee appointed Yount, Hyde and Barbour, P.C. to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015. Yount, Hyde and Barbour, P.C. has served as the Company's independent public accountants since May 2002.

Fees to Independent Registered Public Accounting Firm for Fiscal Years 2014 and 2013

Yount, Hyde and Barbour, P.C. audited the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014; reviewed the Company's quarterly reports on Form 10-Q; and audited management's assessment of internal control over financial reporting as of December 31, 2014. The following table presents aggregate fees paid or to be paid by the Company and the Bank for professional services rendered by Yount, Hyde and Barbour, P.C. for the years ended December 31, 2014 and 2013.

	2014	2013
Audit Fees	$164,375	$165,100
Audit-related Fees	1,120	-
Tax Fees	12,850	

EEMEA	3		3	4		4
Europe	18	2	20	37	4	41
North America	26	5	31	46	7	53
Corporate[1]	1		1	1		1
Total	$ 48	$ 7	$ 55	$ 88	$ 11	$ 99

(1) Includes adjustment for rounding.

Table of Contents

Note 7. Integration Program

As a result of our combination with Cadbury Limited (formerly, Cadbury Plc or Cadbury) in 2010, we launched an integration program (the Integration Program) to combine the Cadbury operations with our operations and realize expected annual cost savings of approximately $750 million by the end of 2013 and revenue synergies from investments in distribution, marketing and product development. We achieved cost savings of approximately $800 million in 2012, a year ahead of schedule, and achieved our planned revenue synergies in 2013. Through the end of 2013, we incurred total integration charges of approximately $1.5 billion and completed incurring planned charges on the Integration Program.

We recorded reversals of Integration Program charges of $3 million in the three months and $5 million in the six months ended June 30, 2014 related to accruals no longer required. We recorded Integration Program charges of $52 million during the three months and $73 million during the six months ended June 30, 2013 in selling, general and administrative expenses within our Europe, Asia Pacific, Latin America and EEMEA segments. Changes in the remaining Integration Program liability during the six months ended June 30, 2014 were:

	2014 (in millions)
Balance at January 1	$ 145
Charges	(5)
Cash spent	(42)
Currency / other	(10)
Balance at June 30	$ 88

At June 30, 2014, $50 million of our net Integration Program liability was recorded within other current liabilities and $38 million, primarily related to leased facilities no longer in use, was recorded within other long-term liabilities.

Note 8. Debt

Short-Term Borrowings:

At June 30, 2014 and December 31, 2013, our short-term borrowings and related weighted-average interest rates consisted of:

	June 30, 2014		December 31, 2013	
	Amount Outstanding (in millions)	Weighted-Average Rate	Amount Outstanding (in millions)	Weighted-Average Rate
Commercial paper	$ 1,682	0.4%	$ 1,410	0.4%
Bank loans	362	6.4%	226	7.0%
Total short-term borrowings	$ 2,044		$ 1,636	

As of June 30, 2014, the commercial paper issued and outstanding had between 1 and 163 days remaining to maturity. Bank loans include borrowings on primarily uncommitted credit lines maintained by some of our international subsidiaries to meet short-term working capital needs.

Borrowing Arrangements:

We maintain a revolving credit facility for general corporate purposes, including for working capital purposes and to support our commercial paper program. Our $4.5 billion four-year senior unsecured revolving credit facility expires on October 11, 2018. The revolving credit agreement includes a covenant that we maintain a minimum shareholders equity of at least $24.6 billion, excluding accumulated other comprehensive earnings / (losses) and the cumulative effects of any changes in accounting principles. At June 30, 2014, we met the covenant as our shareholders equity as defined by the covenant was $35.0 billion. The revolving credit facility agreement also contains customary representations, covenants and events of default. There are no credit rating triggers, provisions or other financial covenants that could require us to post collateral as security. As of June 30, 2014, no amounts were drawn on the facility.

14

Table of Contents

Long-Term Debt:

On February 19, 2014, $500 million of our 6.75% U.S. dollar notes matured. The notes and accrued interest to date were paid with cash on hand and the issuance of commercial paper.

On February 6, 2014, we completed a cash tender offer and retired $1.56 billion of our long-term U.S. dollar debt consisting of:

- $393 million of our 7.000% Notes due in August 2037
- $382 million of our 6.875% Notes due in February 2038
- $250 million of our 6.875% Notes due in January 2039
- $535 million of our 6.500% Notes due in February 2040

We financed the repurchase of these notes, including the payment of accrued interest and other costs incurred, from net proceeds received from the $3.0 billion notes issuance on January 16, 2014. In connection with retiring this debt, during the first six months of 2014, we recorded a $493 million loss on extinguishment of debt within interest expense related to the amount we paid to retire the debt in excess of its carrying value and from recognizing unamortized discounts and deferred financing costs in earnings at the time of the debt extinguishment. The loss on extinguishment is included in long-term debt repayments in the 2014 consolidated statement of cash flows. We also recognized $2 million in interest expense related to interest rate cash flow hedges that were deferred in accumulated other comprehensive losses and recognized into earnings over the life of the debt. Upon extinguishing the debt, the deferred cash flow hedge amounts were recorded in earnings.

On January 16, 2014, we issued $3.0 billion of U.S. dollar notes, consisting of:

- $400 million of floating rate notes that bear interest at a rate equal to three-month LIBOR plus 0.52% and mature on February 1, 2019
- $850 million of 2.250% fixed rate notes that mature on February 1, 2019
- $1,750 million of 4.000% fixed rate notes that mature on February 1, 2024

We received net proceeds of $2,982 million that were used to fund the February 2014 tender offer, pay down commercial paper borrowings and for other general corporate purposes. We recorded approximately $18 million of discounts and deferred financing costs, which will be amortized into interest expense over the life of the notes.

Our weighted-average interest rate on our total debt was 4.2% as of June 30, 2014, following the completion of our tender offer and debt retirement in the first quarter of 2014. Our weighted-average interest rate on our total debt as of December 31, 2013 was 4.8%, down from 5.8% as of December 31, 2012.

Fair Value of Our Debt:

The fair value of our short-term borrowings at June 30, 2014 and December 31, 2013 reflects current market interest rates and approximates the amounts we have recorded on our condensed consolidated balance sheet. The fair value of our long-term debt was determined using quoted prices in active markets (Level 1 valuation data) for the publicly traded debt obligations. At June 30, 2014, the aggregate fair value of our total debt was $20,283 million and its carrying value was $18,541 million. At December 31, 2013, the aggregate fair value of our total debt was $18,835 million and its carrying value was $17,121 million.

Table of Contents

Note 9. Financial Instruments

Derivative instruments were recorded at fair value in the condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013 as follows:

	June 30, 2014		December 31, 2013	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
	(in millions)			
Derivatives designated as hedging instruments:				
Currency exchange contracts	$ 5	$ 3	$ 3	$ 11
Commodity contracts	8	18	2	3
Interest rate contracts	98		209	
	$ 111	$ 21	$ 214	$ 14
Derivatives not designated as hedging instruments:				
Currency exchange contracts	$ 29	$ 56	$ 84	$ 8
Commodity contracts	94	68	60	51
Interest rate contracts	60	35	64	38
	$ 183	$ 159	$ 208	$ 97
Total fair value	$ 294	$ 180	$ 422	$ 111

We record derivative assets and liabilities on a gross basis in our condensed consolidated balance sheet. The fair value of our asset derivatives is recorded within other current assets and the fair value of our liability derivatives is recorded within other current liabilities. See our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2013 for additional information on our risk management strategies and use of derivatives and related accounting.

The fair values (asset / (liability)) of our derivative instruments at June 30, 2014 were determined using:

	Total Fair Value of Net Asset / (Liability)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Currency exchange contracts	$ (25)	$	$ (25)	$
Commodity contracts	16	1	15	
Interest rate contracts	123		123	
Total derivatives	$ 114	$ 1	$ 113	$

The fair values (asset / (liability)) of our derivative instruments at December 31, 2013 were determined using:

	Total Fair Value of Net Asset / (Liability)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Currency exchange contracts	$ 68	$	$ 68	$
Commodity contracts	8	(4)	12	
Interest rate contracts	235		235	
Total derivatives	$ 311	$ (4)	$ 315	$

16

Level 1 financial assets and liabilities consist of exchange-traded commodity futures and listed options. The fair value of these instruments is determined based on quoted market prices on commodity exchanges. Our exchange-traded derivatives are generally subject to master netting arrangements that permit net settlement of transactions with the same counterparty when certain criteria are met, such as in the event of default. We also are required to maintain cash margin accounts in connection with funding the settlement of our open positions and the margin requirements generally fluctuate daily based on market conditions. We have recorded margin deposits related to our exchange-traded derivatives of $26 million as of June 30, 2014 and $22 million as of December 31, 2013 within other current assets. Based on our net asset or liability positions with individual counterparties, in the event of default and immediate net settlement of all of our open positions, as of June 30, 2014, our counterparties would owe us a total of $27 million, and as of December 31, 2013, our counterparties would owe us a total of $7 million.

Level 2 financial assets and liabilities consist primarily of over-the-counter (OTC) currency exchange forwards, options and swaps; commodity forwards and options; and interest rate swaps. Our currency exchange contracts are valued using an income approach based on observable market forward rates less the contract rate multiplied by the notional amount. Commodity derivatives are valued using an income approach based on the observable market commodity index prices less the contract rate multiplied by the notional amount or based on pricing models that rely on market observable inputs such as commodity prices. Our calculation of the fair value of interest rate swaps is derived from a discounted cash flow analysis based on the terms of the contract and the observable market interest rate curve. Our calculation of the fair value of financial instruments takes into consideration the risk of nonperformance, including counterparty credit risk. Our OTC derivative transactions are governed by International Swap Dealers Association (ISDA) agreements and other standard industry contracts. Under these agreements, we do not post nor require collateral from our counterparties. The majority of our commodity OTC derivatives do not have a legal right of set-off. In connection with our OTC derivatives that could be net-settled in the event of default, assuming all parties were to fail to comply with the terms of the agreements, for derivatives we have in a net liability position, we would owe $77 million as of June 30, 2014 and $47 million as of December 31, 2013, and for derivatives we have in a net asset position, our counterparties would owe us a total of $176 million as of June 30, 2014 and $349 million as of December 31, 2013. We manage the credit risk in connection with these and all our derivatives by entering into transactions with counterparties with investment grade credit ratings, limiting the amount of exposure with each counterparty and monitoring the financial condition of our counterparties.

Derivative Volume:

The net notional values of our derivative instruments as of June 30, 2014 and December 31, 2013 were:

	Notional Amount	
	June 30, 2014	December 31, 2013
	(in millions)	
Currency exchange contracts:		
Intercompany loans and forecasted interest payments	$ 6,037	$ 4,369
Forecasted transactions	7,533	2,565
Commodity contracts	802	805
Interest rate contracts	4,041	2,273
Net investment hedge euro notes	4,450	4,466
Net investment hedge pound sterling notes	1,112	1,076

Cash Flow Hedges:

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Accumulated gain / (loss) at beginning of period	$ 82	$	$ 117	$ (38)
	(2)	15	(3)	32

Transfer of realized losses / (gains) in fair value to earnings								
Unrealized gain / (loss) in fair value		(36)		57		(70)		78
Accumulated gain / (loss) at end of period	$	44	$	72	$	44	$	72

17

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Currency exchange contracts forecasted transactions	$ (2)	$ (4)	$ (4)	$ (12)
Commodity contracts	4	(10)	9	(19)
Interest rate contracts		(1)	(2)	(1)
Total	$ 2	$ (15)	$ 3	$ (32)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Currency exchange contracts forecasted transactions	$ 5	$ (2)	$ 7	$ 4
Commodity contracts	(8)	(4)	3	(8)
Interest rate contracts	(33)	63	(80)	82
Total	$ (36)	$ 57	$ (70)	$ 78

Cash flow hedge ineffectiveness and amounts excluded from effectiveness testing were not material for all periods presented.

We record pre-tax (i) gains or losses reclassified from accumulated other comprehensive earnings / (losses) into earnings, (ii) gains or losses on ineffectiveness, and (iii) gains or losses on amounts excluded from effectiveness testing in:

- cost of sales for commodity contracts;
- cost of sales for currency exchange contracts related to forecasted transactions; and
- interest and other expense, net for interest rate contracts and currency exchange contracts related to intercompany loans.

Based on current market conditions, we would expect to transfer unrealized losses of $6 million (net of taxes) for commodity cash flow hedges, unrealized gains of $4 million (net of taxes) for currency cash flow hedges and unrealized losses of less than $1 million (net of taxes) for interest rate cash flow hedges to earnings during the next 12 months.

Hedge Coverage:

As of June 30, 2014, we hedged transactions forecasted to impact cash flows over the following periods:

- commodity transactions for periods not exceeding the next 9 months;
- interest rate transactions for periods not exceeding the next 31 years and 8 months; and
- currency exchange transactions for periods not exceeding the next 18 months.

Fair Value Hedges:

Pre-tax gains / (losses) due to changes in fair value of our interest rate swaps and related hedged long-term debt were recorded in interest and other expense, net:

	For the Three and Six Months Ended June 30,	
	2014	2013
	(in millions)	
Derivatives	$ 14	$
Borrowings	(14)	

Fair value hedge ineffectiveness and amounts excluded from effectiveness testing were not material for all periods presented.

Table of Contents

Economic Hedges:

Pre-tax gains / (losses) recorded in net earnings for economic hedges which are not designated as hedging instruments were:

	For the Three Months Ended June 30, 2014	For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013	Location of Gain / (Loss) Recognized in Earnings
	(in millions)				
Currency exchange contracts:					
Intercompany loans and forecasted interest payments	$ 3	$ (17)	$ 1	$ 3	Interest expense
Forecasted purchases	(30)	38	(40)	26	Cost of sales
Forecasted transactions	(9)		(14)		Interest expense
Forecasted transactions	(2)	4	(3)	3	Selling, general and administrative expenses
Interest rate contracts	1		1	(2)	Interest expense
Commodity contracts	32	17	70	34	Cost of sales
Total	$ (5)	$ 42	$ 15	$ 64	

Hedges of Net Investments in International Operations:

After-tax gains / (losses) related to hedges of net investments in international operations in the form of euro and pound sterling-denominated debt were:

	For the Three Months Ended June 30, 2014	For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013	Location of Gain / (Loss) Recognized in AOCI
	(in millions)				
Euro notes	$ 5	$ (10)	$	$ 10	Currency Translation
Pound sterling notes	(19)	(1)	(23)	43	Adjustment

Note 10. Benefit Plans

Pension Plans

Components of Net Periodic Pension Cost:

Net periodic pension cost for the three and six months ended June 30, 2014 and 2013 consisted of:

	U.S. Plans		Non-U.S. Plans	
	For the Three Months Ended June 30,			
	2014	2013	2014	2013
	(in millions)			
Service cost	$ 13	$ 19	$ 45	$ 43
Interest cost	16	15	100	88

Expected return on plan assets		(20)		(17)		(125)		(107)
Amortization:								
Net loss from experience differences		7		13		27		33
Prior service cost		1				1		1
Settlement losses[1]		4		2		5		
Net periodic pension cost	$	21	$	32	$	53	$	58

Table of Contents

	U.S. Plans		Non-U.S. Plans	
	For the Six Months Ended June 30,			
	2014	2013	2014	2013
	(in millions)			
Service cost	$ 28	$ 36	$ 89	$ 86
Interest cost	33	30	197	177
Expected return on plan assets	(40)	(34)	(248)	(215)
Amortization:				
Net loss from experience differences	15	27	54	68
Prior service cost	1	1	1	1
Settlement losses(1)	6	5	10	
Net periodic pension cost	$ 43	$ 65	$ 103	$ 117

(1) Includes settlement losses of $9 million in the three and six months ended June 30, 2013 related to employees who elected to take lump-sum payments in connection with our 2012-2014 Restructuring Program. These costs are reflected within asset impairments and exit costs on the condensed consolidated statement of earnings and within the charges for severance and related costs in Note 6, *Restructuring Programs 2012-2014 Restructuring Program*. In the six months ended June 30, 2013, these were partially offset by $4 million of gains due to improvements in current market rates for routine settlement losses.

Employer Contributions:

We make contributions to our U.S. and non-U.S. pension plans primarily to the extent that they are tax deductible and do not generate an excise tax liability. During the six months ended June 30, 2014, we contributed $5 million to our U.S. plans and $196 million to our non-U.S. plans. Based on current tax law, we plan to make further contributions of approximately $5 million to our U.S. plans and approximately $113 million to our non-U.S. plans during the remainder of 2014. However, our actual contributions may differ due to many factors, including changes in tax and other benefit laws or significant differences between expected and actual pension asset performance or interest rates.

Postretirement Benefit Plans

Net postretirement health care costs during the three and six months ended June 30, 2014 and 2013 consisted of:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Service cost	$ 3	$ 4	$ 6	$ 8
Interest cost	6	4	11	9
Amortization:				
Net loss from experience differences	1	3	3	6
Prior service credit	(2)	(3)	(5)	(6)
Net postretirement health care costs	$ 8	$ 8	$ 15	$ 17

Postemployment Benefit Plans

Net postemployment costs during the three and six months ended June 30, 2014 and 2013 consisted of:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Service cost	$ 2	$ 2	$ 4	$ 4
Interest cost	1	2	3	3
Net postemployment costs	$ 3	$ 4	$ 7	$ 7

20

Note 11. Stock Plans

On May 21, 2014, our shareholders approved the Amended and Restated 2005 Performance Incentive Plan (the 2005 Plan). Under the amended plan, we now make grants to non-employee directors under the 2005 Plan, and we will no longer make any grants under the Amended and Restated 2006 Stock Compensation Plan for Non-Employee Directors (the 2006 Directors Plan). We also increased the number of shares available for issuance under the 2005 Plan by 75.7 million, which includes the shares remaining available for issuance under the 2006 Directors Plan as of March 14, 2014. Under the 2005 Plan, we are now authorized to issue a maximum of 243.7 million shares of our Common Stock. We may not make any grants under the 2005 Plan after May 21, 2024. As of June 30, 2014, there were 90.1 million shares available to be granted under the 2005 Plan.

Stock Options:

In February 2014, as part of our annual equity program, we granted 9.9 million stock options to eligible employees at an exercise price of $34.17 per share. During the six months ended June 30, 2014, we granted 0.1 million of additional stock options with a weighted-average exercise price of $34.12 per share. In total, 10.0 million stock options were granted with a weighted-average exercise price of $34.16 per share. During the six months ended June 30, 2014, 5.3 million stock options, with an intrinsic value of $79.1 million, were exercised.

Restricted and Deferred Stock:

In January 2014, in connection with our long-term incentive plan, we granted 1.2 million shares of restricted and deferred stock at a market value of $34.97 per share. In February 2014, as part of our annual equity program, we granted 2.0 million shares of restricted and deferred stock to eligible employees at a market value of $34.17 per share. During the six months ended June 30, 2014, we issued 0.7 million of additional restricted and deferred shares with a weighted-average market value of $32.24 per share. In total, 3.9 million restricted and deferred shares were issued with a weighted-average market value of $34.05 per share. During the six months ended June 30, 2014, 3.9 million shares of restricted and deferred stock vested with a market value on the vesting date of $135.6 million.

Share Repurchase Program:

During 2013, our Board of Directors authorized the repurchase of $7.7 billion of our Common Stock through December 31, 2016. Repurchases under the program are determined by management and are wholly discretionary. During the six months ended June 30, 2014, we repurchased 26.0 million shares of Common Stock at an average cost of $35.13 per share, or an aggregate cost of $0.9 billion, of which $0.7 billion was paid during the first half of 2014 and $0.2 billion was prepaid in December 2013 at the inception of an accelerated share repurchase program. All share repurchases were funded through available cash and commercial paper issuances. As of June 30, 2014, we have $4.0 billion in remaining share repurchase capacity.

In December 2013, we initiated an accelerated share repurchase (ASR) program. On December 3, 2013, we paid $1.7 billion and received an initial delivery of 44.8 million shares of Common Stock valued at $1.5 billion. We increased treasury stock by $1.5 billion, and the remaining $0.2 billion was recorded against additional paid in capital. In May 2014, the ASR program concluded and we received an additional 5.1 million shares, valued at $0.2 billion, for a total of 49.9 million shares with an average repurchase price of $34.10 per share over the life of the ASR program. The final settlement was based on the volume-weighted average price of our Common Stock during the purchase period less a fixed per share discount. Upon conclusion of the ASR program and receipt of the remaining repurchased shares, the $0.2 billion recorded in additional paid in capital was reclassified to treasury stock.

Note 12. Commitments and Contingencies

Legal Proceedings:

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

A compliant and ethical corporate culture, which includes adhering to laws and industry regulations in all jurisdictions in which we do business, is integral to our success. Accordingly, after we acquired Cadbury in February 2010 we began reviewing and adjusting, as needed, Cadbury s operations in light of applicable standards as well as our policies and practices. We initially focused on such high priority areas as food safety, the Foreign Corrupt Practices Act (FCPA) and antitrust. Based upon Cadbury s pre-acquisition policies and compliance programs and our post-acquisition reviews, our preliminary findings indicated that Cadbury s overall state of compliance was sound. Nonetheless, through our reviews, we determined that in certain jurisdictions, including India, there appeared to be facts and circumstances warranting further investigation. We are continuing our investigations in certain jurisdictions, including in India, and we continue to cooperate with governmental authorities.

As we previously disclosed, on February 1, 2011, we received a subpoena from the SEC in connection with an investigation under the FCPA, primarily related to a facility in India that we acquired in the Cadbury acquisition. The subpoena primarily requests information regarding dealings with Indian governmental agencies and officials to obtain approvals related to the operation of that facility. We are continuing to cooperate with the U.S. and Indian governments in their investigations of these matters, including through preliminary meetings with the U.S. government to discuss potential conclusion of the investigation.

On February 28, 2013, Cadbury India Limited (now known as Mondelez India Foods Limited), a subsidiary of Mondelēz International, and other parties received a show cause notice from the Indian Department of Central Excise Authority (the Excise Authority). The notice calls upon the parties to demonstrate why the Excise Authority should not collect approximately $46 million of unpaid excise tax as well as approximately $46 million of penalties and interest related to production at the same Indian facility. Subsequently, the Excise Authority issued another show cause notice, dated March 3, 2014, on the same issue but covering the period February to December 2013, thereby adding approximately $20 million of unpaid excise taxes as well as approximately $20 million of penalties and interest to the amount claimed by the Excise Authority. The latest notice includes an accruing claim for excise as finished products leave the facility on an ongoing basis. We believe that the decision to claim the excise tax benefit is valid and we are contesting the show cause notice through the administrative and judicial process.

In April 2013, the staff of the Commodity Futures Trading Commission (CFTC) advised us and Kraft Foods Group that it was investigating activities related to the trading of December 2011 wheat futures contracts that occurred prior to the Spin-Off of Kraft Foods Group. We are cooperating with the staff in its investigation. In March 2014, the staff advised us that they are prepared to recommend that the CFTC consider commencing a formal action. We are seeking to resolve this matter prior to any formal action being taken. It is not possible to predict the outcome of this matter; however, based on our Separation and Distribution Agreement with Kraft Foods Group dated as of September 27, 2012, we expect to predominantly bear any monetary penalties or other payments that the CFTC may impose.

While we cannot predict with certainty the results of any Legal Matters in which we are currently involved, we do not expect that the ultimate costs to resolve any of these Legal Matters, individually or in the aggregate, will have a material effect on our financial results.

Third-Party Guarantees:

We enter into third-party guarantees primarily to cover the long-term obligations of our vendors. As part of these transactions, we guarantee that third parties will make contractual payments or achieve performance measures. At June 30, 2014, we had no material third-party guarantees recorded on our condensed consolidated balance sheet.

Table of Contents

Note 13. Reclassifications from Accumulated Other Comprehensive Income

The components of accumulated other comprehensive earnings / (losses) attributable to Mondelēz International were:

	Currency Translation Adjustments	Pension and Other Benefits	Derivatives Accounted for as Hedges	Total
		(in millions)		
Balances at January 1, 2014	$ (1,414)	$ (1,592)	$ 117	$ (2,889)
Other comprehensive earnings / (losses), before reclassifications:				
Currency translation adjustment[1]	167	(6)		161
Pension and other benefits				
Derivatives accounted for as hedges	(20)		(112)	(132)
Losses / (gains) reclassified into net earnings		85	(4)	81
Tax (expense) / benefit	(3)	(21)	43	19
Total other comprehensive earnings / (losses)				129
Balances at June 30, 2014	$ (1,270)	$ (1,534)	$ 44	$ (2,760)

(1) The condensed consolidated statement of comprehensive earnings for the six months ended June 30, 2014 includes $(1) million of currency translation adjustment attributable to noncontrolling interests.

Amounts reclassified from accumulated other comprehensive earnings / (losses) during the three and six months ended June 30, 2014 and their locations in the condensed consolidated financial statements were as follows:

	For the Three Months Ended June 30, 2014	For the Six Months Ended June 30, 2014	Location of Gain / (Loss) Recognized in Net Earnings
	(in millions)		
Pension and other benefits:			
Reclassification of losses / (gains) into net earnings:			
Amortization of experience losses and prior service costs	$ 35	$ 69	
Settlement losses[1]	9	16	
Tax impact	(8)	(21)	Provision for income taxes
Derivatives accounted for as hedges:			
Reclassification of losses / (gains) into net earnings:			
Currency exchange contracts forecasted transactions	2	4	Cost of sales
Commodity contracts	(4)	(11)	Cost of sales
Interest rate contracts		3	Interest and other expense, net
Tax impact	1	1	Provision for income taxes
Total reclassifications into net earnings, net of tax	$ 35	$ 61	

(1) These items are included in the components of net periodic benefit costs disclosed in Note 10, *Benefit Plans*.

Table of Contents

Note 14. Income Taxes

See Note 1, *Basis of Presentation Revision of Financial Statements*, for information related to the revision of income taxes. During the three months ended June 30, 2014, as part of our ongoing remediation efforts related to the material weakness in internal controls over the accounting for income taxes, we recorded a number of out-of-period adjustments that had an immaterial benefit on the provision for income taxes for the three months ended June 30, 2014 of $5 million. The out-of-period adjustments were not material to the consolidated financial statements for any prior period.

Based on current tax laws, our estimated annual effective tax rate for 2014 is 19.6%, reflecting favorable impacts from the mix of pre-tax income in various non-U.S. tax jurisdictions, partially offset by the remeasurement of our Venezuelan net monetary assets. Our 2014 second quarter effective tax rate of 12.4% was favorably impacted by net tax benefits from $52 million of discrete one-time events, of which $37 million related to tax return to provision adjustments and $9 million related to favorable tax audit settlements and expirations of statutes of limitations in several jurisdictions. Our effective tax rate for the six months ended June 30, 2014 of 7.5% was due to net tax benefits from discrete one-time events and lower pre-tax income due to the tender-related loss on debt extinguishment and the remeasurement of the Venezuela net monetary assets. Of the discrete net tax benefits of $104 million, $60 million related to favorable tax audit settlements and expirations of statutes of limitations in several jurisdictions and $37 million related to tax return to provision adjustments.

As of the second quarter of 2013, our estimated annual effective tax rate for 2013 was 19.7%, reflecting favorable impacts from the mix of pre-tax income in various non-U.S. tax jurisdictions. Our 2013 second quarter effective tax rate of 4.4% was favorably impacted by net tax benefits from $93 million of discrete one-time events, of which $52 million related to favorable tax audit settlements and expirations of statutes of limitations in several jurisdictions and $39 million was associated with a business divestiture. Our effective tax rate for the six months ended June 30, 2013 of 3.5% was favorably impacted by net tax benefits from $186 million of discrete one-time events, of which, $132 million related to favorable tax audit settlements and expirations of statutes of limitations in several jurisdictions and $39 million was associated with a business divestiture.

Note 15. Earnings Per Share

Basic and diluted earnings per share (EPS) were calculated using the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions, except per share data)			
Net earnings	$ 642	$ 602	$ 792	$ 1,144
Noncontrolling interest	20	1	7	7
Net earnings attributable to Mondelēz International	$ 622	$ 601	$ 785	$ 1,137
Weighted-average shares for basic EPS	1,694	1,788	1,699	1,786
Plus incremental shares from assumed conversions of stock options and long-term incentive plan shares	18	15	18	14
Weighted-average shares for diluted EPS	1,712	1,803	1,717	1,800
Basic earnings per share attributable to Mondelēz International:	$ 0.37	$ 0.34	$ 0.46	$ 0.64
Diluted earnings per share attributable to Mondelēz International:	$ 0.36	$ 0.33	$ 0.46	$ 0.63

We exclude antidilutive Mondelēz International stock options from our calculation of weighted-average shares for diluted EPS. We excluded 9.9 million antidilutive stock options for the three months and 7.3 million antidilutive stock options for the six months ended June 30, 2014 and we excluded 8.1 million antidilutive stock options for the three months and 8.6 million antidilutive stock options for the six months ended

June 30, 2013.

Table of Contents

Note 16. Segment Reporting

Our operations, management structure and segments are organized into five reportable operating segments:

- Latin America
- Asia Pacific
- EEMEA
- Europe
- North America

We manage the operations within Latin America, Asia Pacific and EEMEA by location and Europe and North America by product category.

We use segment operating income to evaluate segment performance and allocate resources. We believe it is appropriate to disclose this measure to help investors analyze segment performance and trends. Segment operating income excludes unrealized gains and losses on hedging activities (which are a component of cost of sales), general corporate expenses (which are a component of selling, general and administrative expenses), amortization of intangibles, gains and losses on divestitures or acquisitions and acquisition-related costs (which are a component of selling, general and administrative expenses) in all periods presented. We exclude these items from segment operating income in order to provide better transparency of our segment operating results. Furthermore, we centrally manage interest and other expense, net. Accordingly, we do not present these items by segment because they are excluded from the segment profitability measure that management reviews.

Our segment net revenues and earnings were:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Net revenues:				
Latin America	$ 1,242	$ 1,339	$ 2,598	$ 2,737
Asia Pacific	1,084	1,240	2,307	2,607
EEMEA	1,008	1,039	1,846	1,902
Europe	3,379	3,273	6,936	6,731
North America	1,723	1,704	3,390	3,362
Net revenues	$ 8,436	$ 8,595	$ 17,077	$ 17,339
Earnings before income taxes:				
Operating income:				
Latin America	$ 140	$ 162	$ 184	$ 254
Asia Pacific	111	129	299	318
EEMEA	146	112	210	173
Europe	463	369	926	775
North America	269	194	472	364
Unrealized gains / (losses) on hedging activities	(54)	24	(47)	43
General corporate expenses	(63)	(76)	(135)	(145)
Amortization of intangibles	(55)	(55)	(109)	(109)
Gains on acquisition and divestitures, net		6		28
Acquisition-related costs				(2)
Operating income	957	865	1,800	1,699
Interest and other expense, net	(224)	(235)	(944)	(514)
Earnings before income taxes	$ 733	$ 630	$ 856	$ 1,185

Items impacting our segment operating results are discussed in Note 1, *Basis of Presentation,* including the Venezuelan currency remeasurements, Note 2, *Divestitures and Acquisition*, Note 6, *Restructuring Programs*, and Note 7, *Integration Program*.

Net revenues by consumer sector were:

	For the Three Months Ended June 30, 2014					
	Latin America	Asia Pacific	EEMEA	Europe	North America	Total
	(in millions)					
Biscuits	$ 333	$ 273	$ 171	$ 809	$ 1,384	$ 2,970
Chocolate	256	329	221	1,113	50	1,969
Gum & Candy	293	188	200	238	275	1,194
Beverages	197	137	327	848		1,509
Cheese & Grocery	163	157	89	371	14	794
Total net revenues	$ 1,242	$ 1,084	$ 1,008	$ 3,379	$ 1,723	$ 8,436

	For the Three Months Ended June 30, 2013					
	Latin America	Asia Pacific	EEMEA	Europe	North America	Total
	(in millions)					
Biscuits	$ 334	$ 355	$ 174	$ 780	$ 1,349	$ 2,992
Chocolate	270	363	240	1,062	58	1,993
Gum & Candy	363	207	190	246	278	1,284
Beverages	212	145	353	835		1,545
Cheese & Grocery	160	170	82	350	19	781
Total net revenues	$ 1,339	$ 1,240	$ 1,039	$ 3,273	$ 1,704	$ 8,595

	For the Six Months Ended June 30, 2014					
	Latin America	Asia Pacific	EEMEA	Europe	North America	Total
	(in millions)					
Biscuits	$ 660	$ 604	$ 318	$ 1,545	$ 2,711	$ 5,838
Chocolate	580	747	464	2,590	113	4,494
Gum & Candy	579	394	347	461	538	2,319
Beverages	452	259	555	1,625		2,891
Cheese & Grocery	327	303	162	715	28	1,535
Total net revenues	$ 2,598	$ 2,307	$ 1,846	$ 6,936	$ 3,390	$ 17,077

For the Six Months Ended June 30, 2013

	Latin America	Asia Pacific	EEMEA (in millions)	Europe	North America	Total
Biscuits	$ 624	$ 743	$ 325	$ 1,481	$ 2,642	$ 5,815
Chocolate	648	812	512	2,456	131	4,559
Gum & Candy	696	429	345	475	556	2,501
Beverages	455	272	589	1,640		2,956
Cheese & Grocery	314	351	131	679	33	1,508
Total net revenues	$ 2,737	$ 2,607	$ 1,902	$ 6,731	$ 3,362	$ 17,339

Table of Contents

Note 17. Subsequent Event

On August 5, 2014, our Audit Committee, with authorization from our Board of Directors, approved a quarterly dividend of $0.15 per common share or $0.60 per common share on an annual basis. The dividend is payable on October 14, 2014 to shareholders of record at the close of business on September 30, 2014.

Table of Contents

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

Description of the Company

We manufacture and market primarily snack food and beverage products, including biscuits (cookies, crackers and salted snacks), chocolate, gum & candy, coffee & powdered beverages and various cheese & grocery products. We have operations in more than 80 countries and sell our products in approximately 165 countries.

Over the last several years, we have been expanding geographically and building our presence in the snacking category. At the same time, we continue investing in product quality, marketing and innovation behind our iconic brands, while implementing a series of cost saving initiatives. We expect our global snacks businesses will build upon our strong presence across numerous markets, categories and channels including the high-margin instant consumption channel. Our goal is to achieve industry-leading revenue growth, leverage our cost structure through supply chain reinvention, productivity programs, overhead streamlining, volume growth and improved product mix to drive margin gains and grow earnings per share in the top-tier of our peer group.

Planned Coffee Business Transactions

On May 7, 2014, we announced that we have entered into an agreement to combine our wholly owned coffee portfolio (outside of France) with D.E Master Blenders 1753 B.V. In conjunction with this transaction, Acorn Holdings B.V. (AHBV), owner of D.E Master Blenders 1753, has made a binding offer to receive our coffee business in France. The parties have also invited our partners in certain joint ventures to join the new company. The transactions remain subject to regulatory approvals and the completion of employee information and consultation requirements.

Upon completion of all proposed transactions, we will receive cash of approximately $5 billion and a 49 percent equity interest in the new company, to be called Jacobs Douwe Egberts (JDE). AHBV will hold a majority share in the proposed combined company and will have a majority of the seats on the board, which will be chaired by current D.E Master Blenders 1753 Chairman Bart Becht. AHBV is owned by an investor group led by JAB Holding Company s.à r.l. We will have certain minority rights.

The transactions are expected to be completed in the course of 2015, subject to limited closing conditions, including regulatory approvals. During this time, we and D.E Master Blenders 1753 will undertake consultations with all Works Councils and employee representatives as required in connection with the transactions.

Certain expenses related to readying the businesses for the planned transactions (the JDE coffee transactions) have been incurred. During the three months ended June 30, 2014, the expenses totaled $12 million, of which $7 million was recorded in interest and other expense, net and $5 million in selling, general and administrative expenses primarily within our Europe segment.

2014-2018 Restructuring Program

On May 6, 2014, our Board of Directors approved a $3.5 billion restructuring program, comprised of approximately $2.5 billion in cash costs and $1 billion in non-cash costs (the 2014-2018 Restructuring Program), and up to $2.2 billion of capital expenditures. The primary objective of the 2014-2018 Restructuring Program is to reduce our operating cost structure in both our supply chain and overhead costs. We expect the 2014-2018 Restructuring Program to generate annualized savings of at least $1.5 billion by the program s completion at the end of 2018. Lower overheads and accelerated supply chain cost reductions are each expected to generate roughly half of the total incremental savings. We expect to incur the majority of the program s charges in 2015 and 2016 and to complete the program by year-end 2018. The $2.2 billion of capital expenditures to support the restructuring program is included within our capital expenditure guidance of approximately 5 percent of net revenues for the next few years. For the three and six months ended June 30, 2014, we recorded restructuring and related implementation charges of $10 million. For additional information on the 2014-2018 Restructuring Program, see Note 6, *Restructuring Programs*.

Revision of Financial Statements

In finalizing our 2013 results, we identified certain out-of-period, non-cash, income tax-related errors in prior interim and annual periods. These errors were not material to any previously reported financial results; however, we revised our 2013 interim and prior-year financial statements and accompanying notes in our Annual Report on Form 10-K for the year ended December 31, 2013, to reflect these items in the appropriate periods. The impact of the revision was a reduction of net earnings of $15 million for the three months and $47 million for the six months ended June 30, 2013. For additional details about the adjustments, see Note 1, *Basis of Presentation Revision of Financial Statements*. For additional information about the procedures and controls we are also implementing, see Item 4, *Controls and Procedures*. The following discussion and analysis relates to after-tax results that were revised for the prior-periods presented.

Table of Contents

Summary of Results and Other Highlights

Net revenues decreased 1.8% to $8.4 billion in the second quarter of 2014 and decreased 1.5% to $17.1 billion in the first six months of 2014 as compared to the same periods in the prior year.

Organic Net Revenue increased 1.2% to $8.7 billion in the second quarter of 2014 and increased 2.0% to $17.6 billion in the first six months of 2014 as compared to the same periods in the prior year. Organic Net Revenue is a non-GAAP financial measure we use to evaluate our underlying results (see the definition of Organic Net Revenue and our reconciliation with net revenues within *Non-GAAP Financial Measures* appearing later in this section). For the periods presented, Organic Net Revenue excludes the impact of currency, divestitures and an acquisition.

Diluted EPS attributable to Mondelēz International increased 9.1% to $0.36 in the second quarter of 2014 and decreased 27.0% to $0.46 in the first six months of 2014 as compared to the same periods in the prior year. As further discussed below, a number of items affected the comparability of our results, including the impact of Venezuela currency exchange developments that resulted in currency remeasurement charges of $142 million in the first quarter of 2014 and $54 million in the first quarter of 2013. Also, in connection with the debt tender offer that we completed in February 2014, we recorded $495 million in debt extinguishment and related expenses in the first six months of 2014.

Adjusted EPS increased 11.1% to $0.40 in the second quarter of 2014 and increased 9.7% to $0.79 in the first six months of 2014 as compared to the same periods in the prior year. On a constant currency basis, Adjusted EPS increased 19.4% to $0.43 in the second quarter of 2014 and increased 15.3% to $0.83 in the first six months of 2014 as compared to the same periods in the prior year. Adjusted EPS is a non-GAAP financial measure we use to evaluate our underlying results (see the definition of Adjusted EPS and our reconciliation with diluted EPS within *Non-GAAP Financial Measures* appearing later in this section). Adjusted EPS includes diluted EPS attributable to Mondelēz International and, for the periods presented, excludes: Spin-Off Costs, 2012-2014 Restructuring Program and 2014-2018 Restructuring Program costs, Integration Program and other acquisition integration costs, impact of net monetary asset remeasurements in Venezuela, a loss on debt extinguishment and related expenses, costs associated with the JDE coffee transactions, net earnings from divestitures, net gains on acquisition and divestitures and acquisition-related costs. We also evaluate Adjusted EPS on a constant currency basis as further noted in our discussion and analysis of historical results below.

As a result of recent Venezuelan currency exchange developments and the expected impact on our Venezuelan operations, we remeasured our Venezuelan bolivar-denominated net monetary assets as of March 31, 2014 from the official exchange rate of 6.30 bolivars to the U.S. dollar to the then-prevailing SICAD I exchange rate of 10.70 bolivars to the U.S. dollar. We recognized a $142 million currency remeasurement loss within selling, general and administrative expenses in the three months ended March 31, 2014. In the second quarter of 2014, the impact of the SICAD I rate change was not significant and there were no additional remeasurement charges recorded in operating income. In the three months ended June 30, 2013, we also recorded a $54 million currency remeasurement loss related to the devaluation of our net monetary assets in Venezuela at that time. The impact of the remeasurement, both in the current and prior year, is no longer included in our non-GAAP financial measures of Adjusted Operating Income and Adjusted EPS. We continue to monitor developments in the currency and actively manage our investment and exposures in Venezuela. If any of the rates, or application of the rates to our business, were to change, we may recognize additional currency losses or gains, which could be significant. Refer to Note 1, *Basis of Presentation Currency Translation and Highly Inflationary Accounting*, for additional information.

On February 19, 2014, $500 million of our 6.75% U.S. dollar notes matured. The notes and accrued interest to date were paid with cash on hand and the issuance of commercial paper.

On February 6, 2014, we completed a cash tender offer and retired $1.6 billion of our outstanding higher coupon U.S. dollar debt. In connection with retiring this debt, during the first six months of 2014, we recorded a $495 million loss on debt extinguishment and

related expenses related to the amount we paid to retire the debt in excess of its carrying value and from recognizing unamortized discounts and deferred financing costs in earnings at the time of the debt extinguishment.

On January 16, 2014, we issued $3.0 billion of U.S. dollar notes that generated approximately $3.0 billion of net cash proceeds, which were used in part to fund the February 2014 tender offer and for other general corporate purposes. In January 2014, we also recorded approximately $18 million of discounts and deferred financing costs, which will be amortized into interest expense over the life of the notes.

During 2013, our Board of Directors authorized the repurchase of $7.7 billion of our Common Stock through December 31, 2016 under a share repurchase program. During the six months ended June 30, 2014, we repurchased $0.9 billion, or 26.0 million shares, of Common Stock at an average cost of $35.13 per share. All share repurchases were funded through available cash and commercial paper issuances. As of June 30, 2014, we have $4.0 billion in remaining share repurchase capacity.

Financial Outlook

Our long-term financial targets include:

- Organic Net Revenue growth at or above expected category growth
- Adjusted Operating Income growth of high single-digits on a constant currency basis
- Double-digit Adjusted EPS growth on a constant currency basis

Refer to *Non-GAAP Financial Measures* appearing later in this section for more information on these measures.

Over the last three quarters, growth in the global food categories in which we sell our products has slowed significantly, due largely to macroeconomic issues impacting our consumers, particularly in emerging markets. We anticipate this slowdown will continue in the near term. Additionally, we may realize some dislocation as we increase prices to cover input cost inflation.

In 2014, we expect Organic Net Revenue growth to be 2% to 2.5%. Based on this outlook, we expect high single-digit growth in Adjusted Operating Income on a constant currency basis and high 12 percent range for our Adjusted Operating Income margin. We continue to expect Adjusted EPS of $1.73 to $1.78, up double digits on a constant currency basis. Our 2014 Adjusted EPS outlook reflects average 2013 currency rates.

Discussion and Analysis

Items Affecting Comparability of Financial Results

Remeasurement of Venezuelan Net Monetary Assets

As a result of recent Venezuelan currency exchange developments and the expected impact on our Venezuelan operations, on March 31, 2014, we remeasured our Venezuelan bolivar-denominated net monetary assets from the official exchange rate of 6.30 bolivars to the U.S. dollar to the then-prevailing SICAD I exchange rate of 10.70 bolivars to the U.S. dollar. We recognized a $142 million currency remeasurement loss within selling, general and administrative expenses in the three months ended March 31, 2014. In the three months ended March 31, 2013, we also recorded a $54 million currency remeasurement loss related to the devaluation of our net monetary assets in Venezuela at that time. Note that the impact of the current and prior-year remeasurements is included in our GAAP results and excluded from our non-GAAP Adjusted Operating Income and Adjusted EPS financial measures.

For the three months ended June 30, 2014, the impact of the SICAD I rate change was not significant and there were no additional remeasurement charges recorded in operating income. As of June 30, 2014, our remaining bolivar-denominated net monetary assets were $227 million. Our Venezuela net revenues were approximately $155 million, or 1.8% of consolidated net revenues, in the second quarter of 2014 and approximately $392 million, or 2.3% of consolidated net revenues, in the first half of 2014 (with the first quarter translated at the 6.30 official rate prior to the 2014 remeasurement). If any of the rates, or application of the rates to our business, were to change, we may recognize additional currency losses or gains, which could be significant. Refer to Note 1, *Basis of Presentation Currency Translation and Highly Inflationary Accounting*, for additional information.

Tender Offer and Debt Issuance

On February 6, 2014, we completed a cash tender offer and retired $1.6 billion of our outstanding higher coupon U.S. dollar debt. In the first six months of 2014, we recorded a $495 million loss on debt extinguishment and related expenses related to the amount we paid to retire the debt in excess of its carrying value and from recognizing unamortized discounts and deferred financing costs in earnings at the time of the debt extinguishment. See Note 8, *Debt*, for additional information.

On January 16, 2014, we issued $3.0 billion of U.S. dollar notes that generated approximately $3.0 billion of net cash proceeds, which were used in part to fund the February 2014 tender offer and for other general corporate purposes. In January 2014, we also recorded approximately $18 million of discounts and deferred financing costs, which will be amortized into interest expense over the life of the notes.

Our weighted-average interest rate on our total debt was 4.2% as of June 30, 2014, following the completion of our tender offer and debt retirement in the first quarter of 2014. Our weighted-average interest rate on our total debt as of December 31, 2013 was 4.8%, down from 5.8% as of December 31, 2012.

2012-2014 Restructuring Program

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

Of the $1.5 billion of 2012-2014 Restructuring Program costs, we retained approximately $925 million and Kraft Foods Group retained the balance of the program. Since inception, we have incurred $579 million of our estimated $925 million total 2012-2014 Restructuring Program charges.

We recorded restructuring charges of $54 million for the three months and $96 million for the six months ended June 30, 2014 and $48 million for the three months and $88 million for the six months ended June 30, 2013 within asset impairment and exit costs. We also incurred implementation costs of $19 million for the three months and $43 million for the six months ended June 30, 2014 and $7 million for the three months and $11 million for the six months ended June 30, 2013, which were recorded within cost of sales and selling, general and administrative expenses. See Note 6, *Restructuring Programs 2012-2014 Restructuring Program*, for additional information.

Integration Program

As a result of our combination with Cadbury Limited (formerly, Cadbury Plc or Cadbury) in 2010, we launched an integration program (the Integration Program) to combine the Cadbury operations with our operations and realize annual cost savings of approximately $750 million by the end of 2013 and revenue synergies from investments in distribution, marketing and product development. We achieved cost savings of approximately $800 million in 2012, a year ahead of schedule, and achieved our planned revenue synergies in 2013. Through the end of 2013, we incurred total integration charges of approximately $1.5 billion and completed incurring planned charges on the Integration Program.

We recorded reversals of Integration Program charges of $3 million in the three months and $5 million in the six months ended June 30, 2014 related to accruals no longer required. We recorded Integration Program charges of $52 million for the three months and $73 million for the six months ended June 30, 2013 in selling, general and administrative expenses within our Europe, Asia Pacific, Latin America and EEMEA segments. At June 30, 2014, we had a remaining accrued liability of $88 million related to the Integration Program, of which $50 million was recorded within other current liabilities and $38 million, primarily related to leased facilities no longer in use, was recorded within other long-term liabilities. See Note 7, *Integration Program*, for additional information.

Spin-Off Costs following Kraft Foods Group Divestiture

On October 1, 2012, we completed the Spin-Off of our North American grocery business, Kraft Foods Group, to our shareholders (the Spin-Off). Following the Spin-Off, Kraft Foods Group is an independent public company and we do not beneficially own any shares of Kraft Foods Group common stock. We continue to incur primarily Spin-Off transition costs, and historically we have incurred Spin-Off transaction, transition and financing and related costs (Spin-Off Costs) in our operating results. We recorded $16 million of pre-tax Spin-Off Costs in the three months and $19 million in the six months ended June 30, 2014 and $15 million in the three months and $24 million in the six months ended June 30, 2013. In fiscal year 2014, we expect to incur approximately $30 million of Spin-Off Costs related primarily to customer service and logistics, information systems and processes, as well as legal costs associated with revising intellectual property and other long-term

agreements.

Divestitures and Acquisition

During the three months ended June 30, 2013, we completed two divestitures within our EEMEA segment which generated cash proceeds of $48 million during the quarter and pre-tax gains of $6 million. The divestitures included a salty snacks business in Turkey and a confectionery business in South Africa. The aggregate operating results of these divestitures were not material to our condensed consolidated financial statements during the periods presented.

On February 22, 2013, we acquired the remaining interest in a biscuit operation in Morocco, which is now a wholly-owned subsidiary within our EEMEA segment. We paid net cash consideration of $119 million, consisting of $155 million purchase price net of cash acquired of $36 million. During the three months ended March 31, 2013, we also recorded a pre-tax gain of $22 million related to the remeasurement of our previously-held equity interest in the operation to fair value in accordance with U.S. GAAP. We recorded acquisition costs of $7 million in selling, general and administrative expenses and interest and other expense, net during the three months ended March 31, 2013. We recorded integration charges of $2 million for the three months and $3 million for the six months ended June 30, 2014 and $1 million for the three months ended June 30, 2013 within selling, general and administrative expenses.

Provision for Income Taxes

Our income tax provision could be significantly affected by a shift in pre-tax income between non-U.S. tax jurisdictions, from non-U.S. tax jurisdictions to the U.S. or by changes in non-U.S. or U.S. tax laws and regulations that apply to the earnings of subsidiaries outside of the United States as well as other factors. At the end of each interim period, we make our best estimate of the effective tax rate expected to be applicable for the full fiscal year. This estimate reflects, among other items, our best estimate of operating results and currency exchange rates. However, in arriving at this estimate, we do not include the estimated impact of discrete one-time events. Examples of items which are not included in the estimated annual effective tax rate include subsequent recognition, derecognition and measurement of tax positions taken in previous periods.

Based on current tax laws, our estimated annual effective tax rate for 2014 is 19.6%, reflecting favorable impacts from the mix of pre-tax income in various non-U.S. tax jurisdictions, partially offset by the remeasurement of our Venezuelan net monetary assets. Our 2014 second quarter effective tax rate of 12.4% was favorably impacted by net tax benefits from $52 million of discrete one-time events, of which $37 million related to tax return to provision adjustments and $9 million related to favorable tax audit settlements and expirations of statutes of limitations in several jurisdictions. Our effective tax rate for the six months ended June 30, 2014 of 7.5% was due to net tax benefits from discrete one-time events and lower pre-tax income due to the tender-related loss on debt extinguishment and the remeasurement of the Venezuela net monetary assets. Of the discrete net tax benefits of $104 million, $60 million related to favorable tax audit settlements and expirations of statutes of limitations in several jurisdictions and $37 million related to tax return to provision adjustments.

As of the second quarter of 2013, our estimated annual effective tax rate for 2013 was 19.7%, reflecting favorable impacts from the mix of pre-tax income in various non-U.S. tax jurisdictions. Our 2013 second quarter effective tax rate of 4.4% was favorably impacted by net tax benefits from $93 million of discrete one-time events, of which $52 million related to favorable tax audit settlements and expirations of statutes of limitations in several jurisdictions and $39 million was associated with a business divestiture. Our effective tax rate for the six months ended June 30, 2013 of 3.5% was favorably impacted by net tax benefits from $186 million of discrete one-time events, of which, $132 million related to favorable tax audit settlements and expirations of statutes of limitations in several jurisdictions and $39 million was associated with a business divestiture.

See Note 1, *Basis of Presentation Revision of Financial Statements*, for information related to the revision of income taxes. During the three months ended June 30, 2014, as part of our ongoing remediation efforts related to the material weakness in internal controls over the accounting for income taxes, we recorded a number of out-of-period adjustments that had an immaterial benefit on the provision for income taxes for the three months ended June 30, 2014 of $5 million. The out-of-period adjustments were not material to the consolidated financial statements for any prior period.

Table of Contents

Consolidated Results of Operations

The following discussion compares our consolidated results of operations for the three and six months ended June 30, 2014 and 2013.

Three Months Ended June 30:

	For the Three Months Ended June 30, 2014	For the Three Months Ended June 30, 2013	$ change	% change
	(in millions, except per share data)			
Net revenues	$ 8,436	$ 8,595	$ (159)	(1.8%)
Operating income	$ 957	$ 865	$ 92	10.6%
Net earnings attributable to Mondelēz International	$ 622	$ 601	$ 21	3.5%
Diluted earnings per share attributable to Mondelēz International	$ 0.36	$ 0.33	$ 0.03	9.1%

Net Revenues Net revenues decreased $159 million (1.8%) to $8,436 million in the second quarter of 2014, and Organic Net Revenue [1] increased $102 million (1.2%) to $8,683 million. The changes in net revenues and Organic Net Revenue are detailed below:

Change in net revenues (by percentage point)	
Higher net pricing	3.6pp
Unfavorable volume/mix	(2.4)pp
Total change in Organic Net Revenue [1]	**1.2%**
Unfavorable currency	(2.9)pp
Impact of divestitures	(0.1)pp
Total change in net revenues	**(1.8)%**

(1) Please see the *Non-GAAP Financial Measures* section at the end of this item.

Organic Net Revenue growth was driven by higher net pricing, partially offset by unfavorable volume/mix. Higher net pricing in Latin America (primarily Venezuela, Argentina and Brazil), EEMEA, Asia Pacific and North America was partially offset by lower net pricing in Europe due to lower coffee prices. Unfavorable volume/mix was driven primarily by lower shipments in Asia Pacific, Europe and Latin America. Unfavorable currency impacts decreased net revenues by $247 million, due primarily to the devaluation of the Venezuelan bolivar in March 2014 and the strength of the U.S. dollar relative to several foreign currencies, including the Argentinean peso, Ukrainian hryvnya, Brazilian real, Russian ruble, Australian dollar and Canadian dollar, partially offset by the strength of the euro and British pound sterling relative to the U.S. dollar. The impact of divestitures completed in 2013 resulted in a year-over-year decrease in net revenues of $14 million.

Table of Contents

Operating Income Operating income increased $92 million (10.6%) to $957 million in the second quarter of 2014, Adjusted Operating Income [(1)] increased $81 million (8.3%) to $1,060 million, and Adjusted Operating Income (on a constant currency basis) [(1)] increased $116 million (11.8%) to $1,095 million due to the following:

	Operating Income (in millions)	Change (percentage point)
Operating Income for the Three Months Ended June 30, 2013	**$ 865**	
Integration Program and other acquisition integration costs	53	6.1pp
Spin-Off Costs	15	1.9pp
2012-2014 Restructuring Program costs	55	6.7pp
Gains on divestitures, net	(6)	(0.7)pp
Operating income from divestitures	(3)	(0.3)pp
Adjusted Operating Income [(1)] for the Three Months Ended June 30, 2013	**$ 979**	
Higher net pricing	309	31.6pp
Higher input costs	(175)	(17.9)pp
Unfavorable volume/mix	(108)	(11.1)pp
Lower selling, general and administrative expenses	167	17.0pp
Change in unrealized gains / (losses) on hedging activities	(78)	(7.9)pp
Other, net	1	0.1pp
Total change in Adjusted Operating Income (constant currency) [(1)]	**116**	**11.8%**
Unfavorable currency translation	(35)	(3.5)pp
Total change in Adjusted Operating Income [(1)]	**81**	**8.3%**
Adjusted Operating Income [(1)] for the Three Months Ended June 30, 2014	**$ 1,060**	
Integration Program and other acquisition integration costs	1	0.1pp
Spin-Off Costs	(16)	(1.8)pp
2012-2014 Restructuring Program costs	(73)	(7.9)pp
2014-2018 Restructuring Program costs	(10)	(1.2)pp
Costs associated with the JDE coffee transactions	(5)	(0.6)pp
Operating Income for the Three Months Ended June 30, 2014	**$ 957**	**10.6%**

(1) Please see the *Non-GAAP Financial Measures* section at the end of this item.

During the quarter, higher net pricing outpaced increased input costs. Higher net pricing in Latin America, EEMEA, Asia Pacific and North America was partially offset by lower net pricing in Europe due to lower coffee pricing. The increase in input costs was driven by higher raw material costs, in part due to higher currency exchange transaction costs on imported materials, partially offset by lower manufacturing costs. Unfavorable volume/mix was driven primarily by Asia Pacific, Latin America and Europe, partially offset by EEMEA and North America.

Total selling, general and administrative expenses decreased $231 million from the second quarter of 2013, due in part to a favorable currency impact, lower Integration Program costs and the absence of costs related to businesses divested in 2013, which were partially offset by costs incurred for the 2014-2018 Restructuring Program, higher 2012-2014 Restructuring Program costs and costs incurred related to the JDE coffee transactions. Excluding these factors, selling, general and administrative expenses decreased $167 million from the second quarter of 2013, driven primarily by lower advertising and consumer promotion costs and lower overhead costs. Advertising and consumer promotion costs were lower in the current year due to the timing of significant prior-year investments, savings through consolidating media providers, reduction in non-working media costs and efficiencies gained by shifting spending to lower-cost, digital media outlets. Overhead costs fell as a result of

continued cost management efforts.

The change in unrealized gains / (losses) decreased operating income by $78 million for the second quarter of 2014 and relates to currency and commodity hedging activity. For the three months ended June 30, 2014, the change in unrealized gains / (losses) was a net loss of $54 million as compared to a net gain of $24 million for the three months ended June 30, 2013.

Unfavorable currency impacts decreased operating income by $35 million, due primarily to the devaluation of the Venezuelan bolivar in 2014 and the strength of the U.S. dollar relative to several foreign currencies, including the Argentinean peso, Ukrainian hryvnya, Brazilian real, Russian ruble and Canadian dollar, partially offset by the strength of the euro and British pound sterling relative to the U.S. dollar.

Operating income margin increased from 10.1% in the second quarter of 2013 to 11.3% in the second quarter of 2014. Adjusted Operating Income margin increased from 11.4% in the second quarter of 2013 to 12.6% in the second quarter of 2014. The increase in Adjusted Operating Income margin was driven primarily by lower advertising and consumer promotion costs due to timing of prior-year investments and current year productivity initiatives and lower overhead costs from continued cost management efforts, partially offset by a decline in gross profit margin due entirely to the unfavorable impact of unrealized gains / (losses) from commodity and currency hedging activities.

Net Earnings and Earnings per Share Attributable to Mondelēz International Net earnings attributable to Mondelēz International of $622 million increased by $21 million (3.5%) in the second quarter of 2014. Diluted EPS attributable to Mondelēz International was $0.36 in the second quarter of 2014, up $0.03 (9.1%) from the second quarter of 2013. Adjusted EPS [(1)] was $0.40 in the second quarter of 2014, up $0.04 (11.1%) from the second quarter of 2013. Adjusted EPS (on a constant currency basis) [(1)] was $0.43 in the second quarter of 2014, up $0.07 (19.4%) from the second quarter of 2013. These changes, shown net of tax below, were due to the following:

		Diluted EPS
Diluted EPS Attributable to Mondelēz International for the Three Months Ended June 30, 2013	**$**	**0.33**
Spin-Off Costs [(2)]		0.01
2012-2014 Restructuring Program costs		0.02
Integration Program and other acquisition integration costs		0.02
Gains on divestitures, net		(0.02)
Net earnings from divestitures		
Adjusted EPS [(1)] for the Three Months Ended June 30, 2013	**$**	**0.36**
Increase in operations		0.07
Change in unrealized gains / (losses) on hedging activities		(0.03)
Lower interest and other expense, net [(3)]		0.01
Changes in shares outstanding		0.02
Changes in income taxes		
Adjusted EPS (constant currency) [(1)] for the Three Months Ended June 30, 2014	**$**	**0.43**
Unfavorable currency translation		(0.03)
Adjusted EPS [(1)] for the Three Months Ended June 30, 2014	**$**	**0.40**
Spin-Off Costs [(2)]		(0.01)
2012-2014 Restructuring Program costs		(0.03)
2014-2018 Restructuring Program costs		
Integration Program and other acquisition integration costs		
Tax benefit related to remeasurement of net monetary assets in Venezuela		0.01
Costs associated with the JDE coffee transactions		(0.01)
Diluted EPS Attributable to Mondelēz International for the Three Months Ended June 30, 2014	**$**	**0.36**

(1) Please see the *Non-GAAP Financial Measures* section at the end of this item.
(2) Spin-Off Costs include pre-tax Spin-Off Costs of $16 million for the three months ended June 30, 2014 and $15 million for the three months ended June 30, 2013 in selling, general and administrative expense.
(3) Excludes the favorable currency impact on interest expense related to our non-U.S. dollar denominated debt.

Six Months Ended June 30:

	For the Six Months Ended June 30,			
	2014	2013	$ change	% change
	(in millions, except per share data)			
Net revenues	$ 17,077	$ 17,339	$ (262)	(1.5%)
Operating income	$ 1,800	$ 1,699	$ 101	5.9%
Net earnings attributable to Mondelēz International	$ 785	$ 1,137	$ (352)	(31.0%)
Diluted earnings per share attributable to Mondelēz International	$ 0.46	$ 0.63	$ (0.17)	(27.0%)

Net Revenues Net revenues decreased $262 million (1.5%) to $17,077 million in the first six months of 2014, and Organic Net Revenue [(1)] increased $343 million (2.0%) to $17,634 million. The changes in net revenues and Organic Net Revenue are detailed below:

Change in net revenues (by percentage point)	
Higher net pricing	3.1pp
Unfavorable volume/mix	(1.1)pp
Total change in Organic Net Revenue [(1)]	**2.0%**
Unfavorable currency	(3.3)pp
Impact of divestitures	(0.3)pp
Impact of acquisition	0.1pp
Total change in net revenues	**(1.5)%**

(1) Please see the *Non-GAAP Financial Measures* section at the end of this item.

Organic Net Revenue growth was driven by higher net pricing, partially offset by unfavorable volume/mix. Higher net pricing in Latin America (primarily Venezuela, Argentina and Brazil), EEMEA, North America and Asia Pacific was partially offset by lower net pricing in Europe due to lower coffee prices. Unfavorable volume/mix was driven primarily by lower shipments in Asia Pacific, Europe and Latin America, partially offset by higher shipments in North America and EEMEA. Unfavorable currency impacts decreased net revenues by $571 million, due primarily to the devaluation of the Venezuelan bolivar in February 2013 and March 2014 and the strength of the U.S. dollar relative to several foreign currencies, including the Argentinean peso, Brazilian real, Russian ruble, Australian dollar, Ukrainian hryvnya, Indian rupee and Canadian dollar, partially offset by the strength of the euro and British pound sterling relative to the U.S. dollar. The impact of divestitures completed in 2013 resulted in a year-over-year decrease in net revenues of $48 million. The acquisition of a biscuit operation in Morocco on February 22, 2013 added $14 million in incremental net revenues this year for the period prior to the anniversary date of the acquisition.

Table of Contents

Operating Income Operating income increased $101 million (5.9%) to $1,800 million in the first six months of 2014, Adjusted Operating Income [1] increased $191 million (9.9%) to $2,113 million, and Adjusted Operating Income (on a constant currency basis) [1] increased $265 million (13.8%) to $2,187 million due to the following:

	Operating Income (in millions)	Change (percentage point)
Operating Income for the Six Months Ended June 30, 2013	**$ 1,699**	
Spin-Off Costs	24	1.5pp
2012-2014 Restructuring Program costs	99	5.9pp
Integration Program and other acquisition integration costs	74	4.2pp
Remeasurement of net monetary assets in Venezuela	54	3.3pp
Gains on acquisition and divestitures, net	(28)	(1.5)pp
Acquisition-related costs	2	0.1pp
Operating income from divestitures	(2)	(0.2)pp
Adjusted Operating Income [1] for the Six Months Ended June 30, 2013	**$ 1,922**	
Higher net pricing	529	27.5pp
Higher input costs	(292)	(15.1)pp
Unfavorable volume/mix	(128)	(6.7)pp
Lower selling, general and administrative expenses	236	12.2pp
Change in unrealized gains / (losses) on hedging activities	(90)	(4.7)pp
Gain on sale of property in 2014	7	0.4pp
Impact from acquisition	3	0.2pp
Total change in Adjusted Operating Income (constant currency) [1]	**265**	**13.8%**
Unfavorable currency translation	(74)	(3.9)pp
Total change in Adjusted Operating Income [1]	**191**	**9.9%**
Adjusted Operating Income [1] for the Six Months Ended June 30, 2014	**$ 2,113**	
Spin-Off Costs	(19)	(1.1)pp
2012-2014 Restructuring Program costs	(139)	(7.4)pp
2014-2018 Restructuring Program costs	(10)	(0.6)pp
Integration Program and other acquisition integration costs	2	0.2pp
Remeasurement of net monetary assets in Venezuela	(142)	(8.1)pp
Costs associated with the JDE coffee transactions	(5)	(0.3)pp
Operating Income for the Six Months Ended June 30, 2014	**$ 1,800**	**5.9%**

(1) Please see the *Non-GAAP Financial Measures* section at the end of this item.

Table of Contents

During the first six months of 2014, higher net pricing outpaced increased input costs. Higher net pricing in Latin America, EEMEA, North America and Asia Pacific was partially offset by lower net pricing in Europe due to lower coffee pricing. The increase in input costs was driven by higher raw material costs, in part due to higher currency exchange transaction costs on imported materials, partially offset by lower manufacturing costs. Unfavorable volume/mix was driven by Asia Pacific, Latin America and Europe, partially offset by EEMEA and North America.

Total selling, general and administrative expenses decreased $298 million from the first six months of 2013, due in part to a favorable currency impact, lower Integration Program costs, lower Spin-Off Costs, a gain on a sale of property in 2014 and the absence of costs related to businesses divested in 2013, which were partially offset by the year-over-year negative impact from the devaluation of our net monetary assets in Venezuela in both 2014 and 2013, higher 2012-2014 Restructuring Program costs, costs incurred for the 2014-2018 Restructuring Program and costs incurred related to the JDE coffee transactions. Excluding these factors, selling, general and administrative expenses decreased $236 million from the first six months of 2013, driven primarily by lower advertising and consumer promotion costs and lower overhead costs. Advertising and consumer promotion costs were lower in the current year due to the timing of significant prior-year investments, savings through consolidating media providers, reduction in non-working media costs and efficiencies gained by shifting spending to lower-cost, digital media outlets. Overhead costs fell as a result of continued cost management efforts.

The change in unrealized gains / (losses) decreased operating income by $90 million for the first six months of 2014 and relates to currency and commodity hedging activity. For the six months ended June 30, 2014, the change in unrealized gains / (losses) was a net loss of $47 million, primarily due to currency hedging activity, as compared to a net gain of $43 million for the six months ended June 30, 2013. In the first six months of 2014, we recorded a pre-tax gain of $7 million related to a property in Europe. The acquisition of a biscuit operation in Morocco on February 22, 2013 added $3 million in incremental operating income this year for the period prior to the anniversary of the acquisition.

Unfavorable currency impacts decreased operating income by $74 million, due primarily to the devaluation of the Venezuelan bolivar in 2013 and 2014 and the strength of the U.S. dollar relative to several foreign currencies, including the Argentinean peso, Brazilian real, Australian dollar, Russian ruble and Ukrainian hryvnya, partially offset by the strength of the euro and British pound sterling relative to the U.S. dollar.

Operating income margin increased from 9.8% in the first six months of 2013 to 10.5% in the first six months of 2014. Adjusted Operating Income margin increased from 11.1% in the first six months of 2013 to 12.4% in the first six months of 2014. The increase in Adjusted Operating Income margin was driven primarily by lower advertising and consumer promotion costs due to timing of prior-year investments and current year productivity initiatives and lower overhead costs from continued cost management efforts, partially offset by a decline in gross profit margin due entirely to the unfavorable impact of unrealized gains / (losses) on currency and commodity hedging activities.

Table of Contents

Net Earnings and Earnings per Share Attributable to Mondelēz International Net earnings attributable to Mondelēz International of $785 million decreased by $352 million (31.0%) in the first six months of 2014. Diluted EPS attributable to Mondelēz International was $0.46 in the first six months of 2014, down $0.17 (27.0%) from the first six months of 2013. Adjusted EPS [1] was $0.79 in the first six months of 2014, up $0.07 (9.7%) from the first six months of 2013. Adjusted EPS (on a constant currency basis) [1] was $0.83 in the first six months of 2014, up $0.11 (15.3%) from the first six months of 2013. These changes, shown net of tax below, were due to the following:

		Diluted EPS
Diluted EPS Attributable to Mondelēz International for the Six Months Ended June 30, 2013	**$**	**0.63**
Spin-Off Costs [2]		0.01
2012-2014 Restructuring Program costs		0.04
Integration Program and other acquisition integration costs		0.03
Remeasurement of net monetary assets in Venezuela		0.03
Gains on acquisition and divestitures, net		(0.03)
Acquisition-related costs		0.01
Net earnings from divestitures		
Adjusted EPS [1] for the Six Months Ended June 30, 2013	**$**	**0.72**
Increase in operations		0.15
Gain on sale of property in 2014		
Change in unrealized gains / (losses) on hedging activities		(0.04)
Lower interest and other expense, net [3]		0.02
Changes in income taxes		(0.06)
Changes in shares outstanding		0.04
Adjusted EPS (constant currency) [1] for the Six Months Ended June 30, 2014	**$**	**0.83**
Unfavorable currency translation		(0.04)
Adjusted EPS [1] for the Six Months Ended June 30, 2014	**$**	**0.79**
Spin-Off Costs [2]		(0.01)
2012-2014 Restructuring Program costs		(0.06)
2014-2018 Restructuring Program costs		
Loss on debt extinguishment and related expenses [4]		(0.18)
Integration Program and other acquisition integration costs		
Remeasurement of net monetary assets in Venezuela		(0.08)
Net earnings from divestitures		
Diluted EPS Attributable to Mondelēz International for the Six Months Ended June 30, 2014	**$**	**0.46**

(1) Please see the *Non-GAAP Financial Measures* section at the end of this item.
(2) Spin-Off Costs include of pre-tax Spin-Off Costs of $19 million for the six months ended June 30, 2014 and $24 million for the six months ended June 30, 2013 in selling, general and administrative expense.
(3) Excludes the favorable currency impact on interest expense related to our non-U.S. dollar denominated debt.
(4) On February 6, 2014, we completed a cash tender offer and retired $1.56 billion of outstanding long term debt. In the six months ended June 30, 2014, we recorded a pre-tax loss on debt extinguishment and related expenses of $495 million ($307 million net of estimated taxes) within interest expense for the amount paid to retire the debt in excess of its carrying value and from recognizing unamortized discounts and deferred financing costs in earnings at the time of the debt extinguishment.

39

Table of Contents

Results of Operations by Reportable Segment

Our operations, management structure and segments are organized into five reportable operating segments:

- Latin America
- Asia Pacific
- EEMEA
- Europe
- North America

We manage the operations within Latin America, Asia Pacific and EEMEA by location and Europe and North America by product category.

The following discussion compares the net revenues and earnings of each of our reportable segments for the three and six months ended June 30, 2014 and 2013.

	For the Three Months Ended June 30, 2014	For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013
	(in millions)			
Net revenues:				
Latin America	$ 1,242	$ 1,339	$ 2,598	$ 2,737
Asia Pacific	1,084	1,240	2,307	2,607
EEMEA	1,008	1,039	1,846	1,902
Europe	3,379	3,273	6,936	6,731
North America	1,723	1,704	3,390	3,362
Net revenues	$ 8,436	$ 8,595	$ 17,077	$ 17,339
Earnings before income taxes:				
Operating income:				
Latin America	$ 140	$ 162	$ 184	$ 254
Asia Pacific	111	129	299	318
EEMEA	146	112	210	173
Europe	463	369	926	775
North America	269	194	472	364
Unrealized gains / (losses) on hedging activities	(54)	24	(47)	43
General corporate expenses	(63)	(76)	(135)	(145)
Amortization of intangibles	(55)	(55)	(109)	(109)
Gains on acquisition and divestitures, net		6		28
Acquisition-related costs				(2)
Operating income	957	865	1,800	1,699
Interest and other expense, net	(224)	(235)	(944)	(514)
Earnings before income taxes	$ 733	$ 630	$ 856	$ 1,185

As discussed in Note 16, *Segment Reporting*, management uses segment operating income to evaluate segment performance and allocate resources. We believe it is appropriate to disclose this measure to help investors analyze segment performance and trends. Segment operating income excludes unrealized gains and losses on hedging activities (which are a component of cost of sales), general corporate expenses (which are a component of selling, general and administrative expenses), amortization of intangibles, gains and losses on divestitures and acquisitions and acquisition-related costs (which are a component of selling, general and administrative expenses) in all periods presented. We exclude these items from segment operating income in order to provide better transparency of our segment operating results. Furthermore, we centrally manage interest and other expense, net. Accordingly, we do not present these items by segment because they are excluded from the segment

profitability measure that management reviews.

In connection with our 2014-2018 Restructuring Program, we recorded restructuring charges of $1 million during the three and six months ended June 30, 2014 in operations as part of asset impairment and exit costs. We also recorded implementation costs of $9 million during the three and six months ended June 30, 2014 in operations as a part of cost of sales and selling, general and administrative expenses. These charges were recorded within our Latin America segment and general corporate expenses.

In connection with our 2012-2014 Restructuring Program, we recorded restructuring charges of $54 million during the three months and $96 million during the six months ended June 30, 2014 and $48 million during the three months and $88 million during the six months ended June 30, 2013 in operations, as a part of asset impairment and exit costs. We also recorded implementation costs of $19 million during the three months and $43 million during the six months ended June 30, 2014 and $7 million during the three months and $11 million during the six months ended June 30, 2013 in operations, as a part of cost of sales and selling, general and administrative expenses. These charges were recorded primarily within our Europe, North America and EEMEA segments.

In connection with our Integration Program, we recorded reversals of Integration Program charges of $3 million during the three months and $5 million during the six months ended June 30, 2014 related to accruals no longer required. We recorded charges of $52 million during the three months and $73 million during the six months ended June 30, 2013. At June 30, 2014, $50 million of our net Integration Program liability was recorded within other current liabilities and $38 million, primarily related to leased facilities no longer in use, was recorded within other long-term liabilities. We recorded charges in the Integration Program in operations, as a part of selling, general and administrative expenses primarily within our Europe, Asia Pacific, Latin America and EEMEA segments.

On February 8, 2013, the Venezuelan government announced the devaluation of the official Venezuelan bolivar exchange rate from 4.30 bolivars to 6.30 bolivars to the U.S. dollar and the elimination of the second-tier, government-regulated SITME exchange rate previously applied to value certain types of transactions. In connection with the announced changes, we recorded a $54 million currency remeasurement loss related to the devaluation of our net monetary assets in Venezuela within selling, general and administrative expenses in our Latin America segment during the three months ended March 31, 2013.

On January 24, 2014, the Venezuelan government announced the expansion of the auction-based currency transaction program referred to as SICAD or SICAD I and new profit margin controls. The application of the SICAD I rate was extended to include foreign investments and significant operating activities, including contracts for leasing and services, use and exploitation of patents and trademarks, payments of royalties and contracts for technology import and technical assistance. As of June 30, 2014, the SICAD I exchange rate was 10.60 bolivars to the U.S. dollar.

Additionally, on March 24, 2014, the Venezuelan government launched a new market-based currency exchange market, SICAD II. SICAD II may be used voluntarily to exchange bolivars into U.S. dollars. As of June 30, 2014, the SICAD II exchange rate was 49.98 bolivars to the U.S. dollar. There have been few market transactions to date and we continue to evaluate the new SICAD II market.

Our Venezuelan operations produce a wide range of biscuit, cheese & grocery, confectionery and beverage products. Based on the currency exchange developments this quarter, we have reviewed our domestic and international sourcing of goods and services and the exchange rates we believe will be applicable. We evaluated the level of primarily raw material imports that we believe would continue to be sourced in exchange for U.S. dollars converted at the official 6.30 exchange rate. Our remaining imported goods and services would primarily be valued at the SICAD I exchange rate. Imports that do not currently qualify for either the official rate or SICAD I rate may be sourced at the SICAD II rate.

We believe the SICAD I rate is the most appropriate rate to use as it is most representative of the various exchange rates at which U.S. dollars are currently available to our entire Venezuelan business. While some of our net monetary assets or liabilities qualify for settlement at the official exchange rate, other operations do not, and we have utilized both the SICAD I and SICAD II auction processes. In addition, there is significant uncertainty about our ability to secure approval for transactions and the limited availability of U.S. dollars offered at the official rate. As such, we believe it is more economically representative to use the SICAD I rate than the official rate to value our net monetary assets and translate future operating results.

As of March 31, 2014, we began to apply the SICAD I exchange rate to remeasure our bolivar-denominated net monetary assets, and we began translating our Venezuelan operating results at the new rate in the second quarter of 2014. On March 31, 2014, we recognized a $142 million currency remeasurement loss within selling, general and administrative

expenses of our Latin America segment as a result of revaluing our bolivar-denominated net monetary assets from the official exchange rate of 6.30 bolivars to the U.S. dollar to the then-prevailing SICAD I exchange rate of 10.70 bolivars to the U.S. dollar. For the three months ended June 30, 2014, the impact of the SICAD I rate change was not significant and there were no additional remeasurement charges recorded in operating income.

The following table sets forth net revenues for our Venezuelan operations for the three and six months ended June 30, 2014 (with the first quarter translated at the 6.30 official rate prior to the remeasurement), and cash, net monetary assets and net assets of our Venezuelan subsidiaries as of June 30, 2014 (translated at 10.70 bolivars to the U.S. dollar):

Venezuela operations	**Three Months Ended June 30, 2014**
Net Revenues	$155 million or 1.8% of consolidated net revenue
	Six Months Ended June 30, 2014
Net Revenues	$392 million or 2.3% of consolidated net revenue
	As of June 30, 2014
Cash	$261 million
Net Monetary Assets	$227 million
Net Assets	$460 million

The SICAD I and II rates are variable rates. Unlike the official rate that was devalued and fixed at 6.30 bolivars to the U.S. dollar, the SICAD I rate reflects currently offered rates based on recently cleared auction transactions, and the SICAD II rate reflects voluntary market-based currency exchange transactions cleared by the Central Bank of Venezuela. As such, these rates are expected to vary over time. If any of the rates, or application of the rates to our business, were to change, we may recognize additional currency losses or gains, which could be significant.

In light of the current difficult macroeconomic environment in Venezuela, we continue to monitor and actively manage our investment and exposures in Venezuela. We have taken protective measures against currency devaluation, such as converting monetary assets into non-monetary assets that we can use in our business. However, suitable protective measures have become less available and more expensive and may not be available to offset further currency devaluation that could occur.

On January 23, 2014, the Central Bank of Argentina adjusted its currency policy, removed its currency stabilization measures and allowed the Argentine peso exchange rate to float relative to the U.S. dollar. On that day, the value of the Argentine peso relative to the U.S. dollar fell by 15%, and from December 31, 2013 through June 30, 2014, the value of the peso declined 25%. Further volatility and declines in the exchange rate are expected. Based on the current state of Argentine currency rules and regulations, the business environment remains challenging; however, we do not expect the existing controls and restrictions to have a material adverse effect on our business, financial condition or results of operations. Our Argentinian operations contributed approximately $170 million, or 2.0% of consolidated net revenues, in the three months and $340 million, or 2.0% of consolidated net revenues, in the six months ended June 30, 2014. Argentina is not designated as a highly-inflationary economy at this time for accounting purposes, so we continue to record currency translation adjustments within equity and realized exchange gains and losses on transactions in earnings.

During the three months ended June 30, 2013, we completed two divestitures within our EEMEA segment which generated cash proceeds of $48 million and pre-tax gains of $6 million. The divestitures included a salty snacks business in Turkey and a confectionery business in South Africa. The aggregate operating results of these divestitures were not material to our condensed consolidated financial statements during the periods presented.

On February 22, 2013, we acquired the remaining interest in a biscuit operation in Morocco, which is now a wholly-owned subsidiary within our EEMEA segment. We paid net cash consideration of $119 million, consisting of $155 million purchase price net of cash acquired of $36 million. During the three months ended March 31, 2013, we also recorded a pre-tax gain of $22 million related to the remeasurement of our previously-held equity interest in the operation to fair value in accordance with U.S. GAAP and acquisition costs of $7 million in selling, general and administrative expenses and interest and other expense, net. We recorded integration charges of $2 million for the three months and $3 million for the six months ended June 30, 2014 and $1 million for the three months ended June 30, 2013 within selling, general and administrative expenses.

42

Table of Contents

Net changes in unrealized gains / (losses) relate to currency and commodity hedging activity and were $(54) million for the three months and $(47) million for the six months ended June 30, 2014 and $24 million for the three months and $43 million for the six months ended June 30, 2013. Once realized, the gains or losses are reclassified to segment operating income.

The $13 million decrease in general corporate expenses in the three months ended June 30, 2014 was due primarily to lower corporate functions/project expenses and other general corporate expenses, partially offset by implementation costs incurred for the 2014-2018 Restructuring Program. Corporate functions/project expenses decreased $12 million from $56 million to $44 million, primarily due to certain personnel-related support costs that were migrated to our North America segment. The $10 million decrease in general corporate expenses for the six months ended June 30, 2014 was due primarily to lower Spin-Off Costs and lower other general corporate expenses, partially offset by implementation costs incurred for the 2014-2018 Restructuring Program and higher corporate functions/project expenses. Spin-Off Costs within general corporate expenses decreased $7 million from $24 million to $17 million. Implementation costs incurred for the 2014-2018 Restructuring Program of $8 million were charged to general corporate expense. Corporate functions/project expenses increased $1 million from $109 million to $110 million, driven by charges due to an unclaimed property liability and a legal matter, mostly offset by certain personnel-related support costs that were migrated to our North America segment and continued costs management efforts.

The $11 million decrease in interest and other expense, net in the three months ended June 30, 2014 was due primarily to lower interest expense due to recently refinanced long-term debt. The $430 million increase in interest and other expense, net for the six months ended June 30, 2014 was due primarily to the $495 million loss on debt extinguishment and related expenses, partially offset by lower interest expense due to recently refinanced long-term debt.

Latin America

	For the Three Months Ended June 30,			
	2014	2013	$ change	% change
		(in millions)		
Net revenues	$ 1,242	$ 1,339	$ (97)	(7.2%)
Segment operating income	140	162	(22)	(13.6%)

	For the Six Months Ended June 30,			
	2014	2013	$ change	% change
		(in millions)		
Net revenues	$ 2,598	$ 2,737	$ (139)	(5.1%)
Segment operating income	184	254	(70)	(27.6%)

Three Months Ended June 30:

Net revenues decreased $97 million (7.2%), due to unfavorable currency (19.0 pp) and unfavorable volume/mix (6.9 pp), partially offset by higher net pricing (18.7 pp). Unfavorable currency impacts were due primarily to the Venezuelan bolivar devaluation in March 2014 and the strength of the U.S. dollar relative to the Argentinean peso and Brazilian real. Unfavorable volume/mix was driven primarily by Mexico, Venezuela and Argentina, partially offset by gains in Brazil (including a benefit from the later timing of Easter) and the Western Andean countries. Higher net pricing was reflected primarily in higher inflationary countries, Venezuela and Argentina, as well as in Brazil and Mexico.

Segment operating income decreased $22 million (13.6%), due primarily to higher raw material costs, unfavorable volume/mix, unfavorable currency and higher manufacturing costs, partially offset by higher net pricing and lower other selling, general and administrative expenses.

Six Months Ended June 30:

Net revenues decreased $139 million (5.1%), due to unfavorable currency (18.4 pp) and unfavorable volume/mix (4.0 pp), partially offset by higher net pricing (17.3 pp). Unfavorable currency impacts were due primarily to the Venezuelan bolivar devaluation in February 2013 and March 2014 and the strength of the U.S. dollar relative to the Argentinean peso and Brazilian real. Unfavorable volume/mix was driven primarily by Venezuela, Mexico and Argentina, partially offset by gains in the Western Andean countries and Brazil. Higher net pricing was reflected primarily in higher inflationary countries, Venezuela and Argentina, as well as in Brazil and Mexico.

Segment operating income decreased $70 million (27.6%), due primarily to higher raw material costs, the year-over-year net impact from the remeasurement of net monetary assets in Venezuela, unfavorable currency, unfavorable volume/mix and higher 2012-2014 Restructuring Program costs, partially offset by higher net pricing, the absence of Integration Program costs in the first six months of 2014 and lower other selling, general and administrative expenses.

Table of Contents

Asia Pacific

	For the Three Months Ended June 30,			
	2014	2013	$ change	% change
	(in millions)			
Net revenues	$ 1,084	$ 1,240	$ (156)	(12.6%)
Segment operating income	111	129	(18)	(14.0%)

	For the Six Months Ended June 30,			
	2014	2013	$ change	% change
	(in millions)			
Net revenues	$ 2,307	$ 2,607	$ (300)	(11.5%)
Segment operating income	299	318	(19)	(6.0%)

Three Months Ended June 30:

Net revenues decreased $156 million (12.6%), due to unfavorable volume/mix (9.9 pp) and unfavorable currency (4.3 pp), partially offset by higher net pricing (1.6 pp). Unfavorable volume/mix was driven primarily by China, Australia/New Zealand and Indonesia, partially offset by gains in India. Unfavorable currency impacts were due primarily to the strength of the U.S. dollar relative to the Australian dollar and Indian rupee. Higher net pricing was primarily due to India, Indonesia and the Philippines.

Segment operating income decreased $18 million (14.0%), due primarily to higher raw material costs and unfavorable volume/mix, partially offset by lower manufacturing costs, lower other selling, general and administrative expenses, lower advertising and consumer promotion costs, higher net pricing and the absence of Integration Program costs in 2014.

Six Months Ended June 30:

Net revenues decreased $300 million (11.5%), due to unfavorable volume/mix (6.7 pp) and unfavorable currency (6.1 pp), partially offset by higher net pricing (1.3 pp). Unfavorable volume/mix was driven primarily by China, Australia/New Zealand, Indonesia and Thailand, partially offset by gains in India. Unfavorable currency impacts were due primarily to the strength of the U.S. dollar relative to the Australian dollar, Indian rupee and Indonesian rupiah. Higher net pricing was primarily due to India, Indonesia and the Philippines.

Segment operating income decreased $19 million (6.0%), due primarily to higher raw material costs, unfavorable volume/mix and unfavorable currency, partially offset by lower manufacturing costs, lower other selling, general and administrative expenses, lower advertising and consumer promotion costs, higher net pricing and the absence of Integration Program costs in 2014.

Table of Contents

EEMEA

	For the Three Months Ended June 30, 2014	2013	$ change	% change
		(in millions)		
Net revenues	$ 1,008	$ 1,039	$ (31)	(3.0%)
Segment operating income	146	112	34	30.4%

	For the Six Months Ended June 30, 2014	2013	$ change	% change
		(in millions)		
Net revenues	$ 1,846	$ 1,902	$ (56)	(2.9%)
Segment operating income	210	173	37	21.4%

Three Months Ended June 30:

Net revenues decreased $31 million (3.0%), due to unfavorable currency (9.2 pp) and the impact of divestitures (0.1 pp), partially offset by favorable volume/mix (3.3 pp) and higher net pricing (3.0 pp). Unfavorable currency impacts were due to the strength of the U.S. dollar relative to most currencies in the region, primarily the Ukrainian hryvnya, Russian ruble, Turkish lira and South African rand. Divestitures completed in 2013 resulted in a $1 million decline in net revenues. Favorable volume/mix was driven primarily by the Gulf Cooperation Council (GCC) countries and Turkey. Higher net pricing was reflected across most of the segment, primarily in Russia and Turkey.

Segment operating income increased $34 million (30.4%), due primarily to higher net pricing, the absence of Integration Program costs in 2014, lower advertising and consumer promotion costs, lower manufacturing costs, favorable volume/mix and lower other selling, general and administrative expenses, partially offset by higher raw material costs, unfavorable currency and higher 2012-2014 Restructuring Program costs.

Six Months Ended June 30:

Net revenues decreased $56 million (2.9%), due to unfavorable currency (9.7 pp) and the impact of divestitures (1.0 pp), partially offset by favorable volume/mix (4.3 pp), higher net pricing (2.7 pp) and the impact of the February 2013 acquisition of a biscuit operation in Morocco (0.8 pp). Unfavorable currency impacts were due to the strength of the U.S. dollar relative to most currencies in the region, primarily the Russian ruble, Ukrainian hryvnya, South African rand and Turkish lira. Divestitures completed in 2013 resulted in a $20 million decline in net revenues. Favorable volume/mix was driven primarily by the GCC countries, Russia and Turkey. Higher net pricing was reflected across most of the segment, primarily in Turkey and Russia. The acquisition of a biscuit operation in Morocco in February 2013 added $14 million in incremental net revenues for the first six months of 2014 for the period prior to the anniversary date of the acquisition.

Segment operating income increased $37 million (21.4%), due primarily to higher net pricing, favorable volume/mix, lower manufacturing costs, the absence of Integration Program costs in 2014, lower advertising and consumer promotion costs and the impact of 2013 divestitures, partially offset by higher raw material costs, unfavorable currency, higher other selling, general and administrative expenses and higher 2012-2014 Restructuring Program costs.

Table of Contents

Europe

	For the Three Months Ended June 30,			
	2014	2013	$ change	% change
	(in millions)			
Net revenues	$ 3,379	$ 3,273	$ 106	3.2%
Segment operating income	463	369	94	25.5%

	For the Six Months Ended June 30,			
	2014	2013	$ change	% change
	(in millions)			
Net revenues	$ 6,936	$ 6,731	$ 205	3.0%
Segment operating income	926	775	151	19.5%

Three Months Ended June 30:

Net revenues increased $106 million (3.2%), due to favorable currency (5.2 pp), partially offset by unfavorable volume/mix (1.6 pp), lower net pricing (0.3 pp) and the impact of divestitures (0.1 pp). Favorable currency impacts primarily reflected the strength of the euro and British pound sterling relative to the U.S. dollar. Unfavorable volume/mix, net of the benefit from the later timing of Easter, was driven primarily by lower shipments in chocolate and gum & candy, partially offset by favorable product mix in coffee. Lower net pricing was driven primarily by coffee, which reflected the pass-through of lower green coffee costs, partially offset by higher net pricing in chocolate. Divestitures completed in 2013 resulted in a $3 million decline in net revenues.

Segment operating income increased $94 million (25.5%), due primarily to lower manufacturing costs, lower other selling, general and administrative expenses, lower advertising and consumer promotion costs, favorable currency and lower Integration Program costs (including the reversal of a prior-year accrual), partially offset by unfavorable volume/mix, higher 2012-2014 Restructuring Program costs, lower net pricing and costs associated with the JDE coffee transactions.

Six Months Ended June 30:

Net revenues increased $205 million (3.0%), due to favorable currency (4.6 pp), partially offset by lower net pricing (1.1 pp), unfavorable volume/mix (0.4 pp) and the impact of divestitures (0.1 pp). Favorable currency impacts primarily reflected the strength of the euro and British pound sterling relative to the U.S. dollar. Lower net pricing was driven primarily by coffee, which reflected the pass-through of lower green coffee costs, partially offset by higher net pricing in chocolate and cheese & grocery. Unfavorable volume/mix was driven by lower shipments in gum & candy, chocolate and cheese & grocery, partially offset by favorable product mix in coffee. Divestitures completed in 2013 resulted in a $6 million decline in net revenues.

Segment operating income increased $151 million (19.5%), due primarily to lower manufacturing costs, lower other selling, general and administrative expenses (including a gain on a sale of property), favorable currency, lower advertising and consumer promotion costs and lower Integration Program costs (including the reversal of a prior-year accrual), partially offset by lower net pricing, higher 2012-2014 Restructuring Program costs, higher raw material costs (including higher cocoa and dairy costs, net of lower green coffee costs) and costs associated with the JDE coffee transactions.

Table of Contents

North America

	For the Three Months Ended June 30,			
	2014	2013	$ change	% change
	(in millions)			
Net revenues	$ 1,723	$ 1,704	$ 19	1.1%
Segment operating income	269	194	75	38.7%

	For the Six Months Ended June 30,			
	2014	2013	$ change	% change
	(in millions)			
Net revenues	$ 3,390	$ 3,362	$ 28	0.8%
Segment operating income	472	364	108	29.7%

Three Months Ended June 30:

Net revenues increased $19 million (1.1%), due to favorable volume/mix (1.6 pp) and higher net pricing (1.1 pp), partially offset by unfavorable currency (1.0 pp) and the impact of divestitures (0.6 pp). Favorable volume/mix was driven primarily by higher shipments in biscuits and gum & candy, partially offset by lower shipments in chocolate. Higher net pricing was reflected primarily in biscuits and candy, partially offset by lower net pricing in chocolate and gum. Unfavorable currency impact was due to the strength of the U.S. dollar relative to the Canadian dollar. Divestitures completed in 2013 resulted in a $10 million decline in net revenues.

Segment operating income increased $75 million (38.7%), due primarily to lower raw material costs, higher net pricing, favorable volume/mix, lower other selling, general and administrative expenses and lower 2012-2014 Restructuring Program costs.

Six Months Ended June 30:

Net revenues increased $28 million (0.8%), due to higher net pricing (1.3 pp) and favorable volume/mix (1.3 pp), partially offset by unfavorable currency (1.1 pp) and the impact of divestitures (0.7 pp). Higher net pricing was reflected primarily in biscuits and candy, partially offset by lower net pricing in chocolate and gum. Favorable volume/mix was driven primarily by higher shipments in biscuits, partially offset by lower shipments in chocolate and unfavorable product mix in gum & candy. Unfavorable currency impact was due to the strength of the U.S. dollar relative to the Canadian dollar. Divestitures completed in 2013 resulted in a $22 million decline in net revenues.

Segment operating income increased $108 million (29.7%), due primarily to higher net pricing, lower raw material costs, lower other selling, general and administrative expenses, favorable volume/mix and lower advertising and consumer promotion costs, partially offset by higher manufacturing costs and the impact of divestitures.

Liquidity and Capital Resources

We believe that cash from operations, our $4.5 billion revolving credit facility (which supports our commercial paper program) and our authorized long-term financing will provide sufficient liquidity to meet our working capital needs, planned capital expenditures, future contractual obligations, share repurchases and payment of our anticipated quarterly dividends. We continue to maintain investment grade credit ratings on our debt. We continue to utilize our commercial paper program, primarily uncommitted international credit lines and long-term debt issuances for regular funding requirements. We also use intercompany loans with our international subsidiaries to improve financial flexibility. Overall, we do not expect any negative effects to our funding sources that would have a material effect on our liquidity, including the indefinite reinvestment of our earnings outside of the United States. In Venezuela, we consider all undistributed earnings to be indefinitely reinvested and access to cash of $261 million in Venezuela to be limited due to the uncertain economic and political environment. We do not expect this limitation to have a material adverse effect on our liquidity. Refer to Note 1, *Basis of Presentation Currency Translation and Highly Inflationary Accounting*, for additional information.

Net Cash Provided By Operating Activities:

During the first six months of 2014, net cash provided by operating activities was $368 million, compared with $418 million provided in the first six months of 2013. Net cash provided by operating activities decreased primarily due to higher working capital costs, mainly due to higher income taxes paid in 2014 related to the resolution of the Starbucks arbitration in the fourth quarter of 2013, partially offset by the lengthening of days that payables are outstanding, lower interest payments and acceleration of accounts receivable collection and increased earnings on a cash basis.

Net Cash Used In Investing Activities:

During the first six months of 2014, net cash used in investing activities was $698 million, compared with $582 million used in the first six months of 2013. In the first half of 2014 and 2013, net cash used in investing activities consisted primarily of capital expenditures, with an increase in 2014 related to building new plants, modernizing manufacturing facilities and launching new productivity initiatives. Net cash used in 2013 also included cash paid in connection with the 2013 acquisition of a biscuit operation in Morocco, partially offset by cash received from Kraft Foods Group related to the Spin-Off and proceeds from divestitures in 2013.

We expect 2014 capital expenditures to be up to $2.0 billion, including capital expenditures required for investments in systems, the 2012-2014 Restructuring Program and the 2014-2018 Restructuring Program, including the acceleration of the supply chain reinvention program. We expect to continue to fund these expenditures from operations and commercial paper issuances.

Net Cash Used In Financing Activities:

During the first six months of 2014, net cash used in financing activities was $163 million, compared with $1,728 million used in the first six months of 2013. Net cash used in financing activities decreased primarily due to the issuance of long-term debt in the first quarter of 2014 and issuances of commercial paper in the first and second quarters of 2014, offset in part by an increase in long-term debt repaid, commercial paper and other short-term borrowings repaid and share repurchases.

Borrowing Arrangements:

We maintain a revolving credit facility for general corporate purposes, including for working capital requirements and to support our commercial paper program. Our $4.5 billion five-year senior unsecured revolving credit facility expires on October 11, 2018. The revolving credit agreement includes a covenant that we maintain a minimum shareholders equity of at least $24.6 billion, excluding accumulated other comprehensive earnings / (losses) and the cumulative effects of any changes in accounting principles. At June 30, 2014, we met the covenant as our shareholders equity as defined by the covenant was $35.0 billion. The revolving credit agreement also contains customary representations, covenants and events of default. There are no credit rating triggers, provisions or other financial covenants that could require us to post collateral as security. As of June 30, 2014, no amounts were drawn on the facility.

Some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to $2.1 billion at June 30, 2014 and $1.8 billion at December 31, 2013. Borrowings on these lines amounted to $362 million at June 30, 2014 and $226 million at December 31, 2013.

Long-Term Debt:

We regularly evaluate our variable and fixed-rate debt and recently refinanced $6.4 billion of our long-term U.S. dollar denominated debt for lower cost long-term euro and U.S. dollar-denominated debt. We continued to use lower cost short and long-term debt to finance our ongoing working capital, capital and other investments, dividends and share

Table of Contents

repurchases. Our weighted-average interest rate on our total debt as of December 31, 2013 was 4.8%, down from 5.8% as of December 31, 2012. Following the completion of our tender offer and debt retirement in the first quarter of 2014, our weighted-average interest rate on our total debt as of June 30, 2014 was 4.2%.

On February 19, 2014, $500 million of our 6.75% U.S. dollar notes matured. The notes and accrued interest to date were paid with cash on hand and the issuance of commercial paper.

On February 6, 2014, we completed a cash tender offer and retired $1.56 billion of our long-term U.S. dollar debt consisting of:

- $393 million of our 7.000% Notes due in August 2037
- $382 million of our 6.875% Notes due in February 2038
- $250 million of our 6.875% Notes due in January 2039
- $535 million of our 6.500% Notes due in February 2040

We financed the repurchase of these notes, including the payment of accrued interest and other costs incurred, from net proceeds received from the $3.0 billion notes issuance on January 16, 2014. In connection with retiring this debt, during the first six months of 2014, we recorded a $493 million loss on extinguishment of debt within interest expense related to the amount we paid to retire the debt in excess of its carrying value and from recognizing unamortized discounts and deferred financing costs in earnings at the time of the debt extinguishment. The loss on extinguishment is included in long-term debt repayments in the 2014 consolidated statement of cash flows. We also recognized $2 million in interest expense related to interest rate cash flow hedges that were deferred in accumulated other comprehensive losses and recognized into earnings over the life of the debt. Upon extinguishing the debt, the deferred cash flow hedge amounts were recorded in earnings.

On January 16, 2014, we issued $3.0 billion of U.S. dollar notes, consisting of:

- $400 million of floating rate notes that bear interest at a rate equal to three-month LIBOR plus 0.52% and mature on February 1, 2019
- $850 million of 2.250% fixed rate notes that mature on February 1, 2019
- $1,750 million of 4.000% fixed rate notes that mature on February 1, 2024

We received net proceeds of $2,982 million that were used to fund the February 2014 tender offer, pay down commercial paper borrowings and for other general corporate purposes. We recorded approximately $18 million of discounts and deferred financing costs, which will be amortized into interest expense over the life of the notes.

We expect to continue to comply with our long-term debt covenants. Refer to our Annual Report on Form 10-K for the year ended December 31, 2013 for further details of our debt covenants.

Total Debt:

Our total debt was $18.5 billion at June 30, 2014 and $17.1 billion at December 31, 2013. Our debt-to-capitalization ratio was 0.36 at June 30, 2014 and 0.35 at December 31, 2013. At June 30, 2014, the weighted-average term of our outstanding long-term debt was 7.8 years.

From time to time we refinance long-term and short-term debt. The nature and amount of our long-term and short-term debt and the proportionate amount of each varies as a result of future business requirements, market conditions and other factors. Generally, in the first and second quarters of the year, our working capital requirements grow, increasing the need for short-term financing. The third and fourth quarters of the year typically generate higher cash flows. As such, we may issue commercial paper or secure other forms of financing throughout the year to meet short-term working capital needs.

In February 2014, our Board of Directors approved a new $5 billion long-term financing authority that superseded the prior authority. All of the $5 billion long-term financing authority remains available as of June 30, 2014.

In the next 12 months, $2,225 million of long-term debt will mature as follows: $513 million in December 2014, $1,164 million in March 2015 and $548 million in June 2015. We expect to fund these repayments with cash from operations and the issuance of commercial paper or additional debt.

Commodity Trends

We purchase and use large quantities of commodities, including sugar and other sweeteners, coffee, cocoa, wheat, corn products, soybean and vegetable oils and dairy. In addition, we purchase and use significant quantities of packaging

materials to package our products and natural gas, fuels and electricity for our factories and warehouses. We regularly monitor worldwide supply and cost trends of these commodities so we can cost-effectively secure ingredients and packaging required for production.

Significant cost items in biscuits, chocolate, gum, candy and many powdered beverage products are sugar and cocoa. We purchase sugar and cocoa on world markets, and the quality and availability of supply and changes in currencies affect the prices of these commodities. During the first six months of 2014, cocoa bean and cocoa butter costs rose significantly due to growing demand for chocolate. Significant cost items in our biscuit products are grains (primarily wheat, corn and soybean oil). In recent years, grain costs have been affected largely by the burgeoning global demand for food, livestock feed and biofuels such as ethanol and biodiesel, as well as other factors such as weather. The most significant cost item in coffee products is green coffee beans, which we purchase on world markets as well as from local grower cooperatives. Green coffee bean prices are affected by the quality and availability of supply, changes in the value of the U.S. dollar in relation to other currencies and consumer demand for coffee products. During the first six months of 2014, coffee bean costs have risen significantly since 2013, primarily due to the threat of reduced supply because of poor weather conditions in leading coffee producing countries such as Brazil. Significant cost items in packaging include cardboards, resins and plastics, and our energy costs include natural gas, electricity and diesel fuel. We purchase these packaging and energy commodities on world markets and within the countries where we operate. Supply and changes in currencies affect the prices of these commodities.

During the six months ended June 30, 2014, the primary drivers of the increase in our aggregate commodity costs were increased cocoa, dairy, packaging and energy costs as well as higher currency-related costs on our commodity purchases. Our covered coffee bean costs were lower in the first six months of 2014, which partially offset these increased aggregate commodity costs. We generally price to protect gross profit dollars. We address higher commodity costs and currency impacts primarily through higher pricing, hedging and manufacturing and overhead cost control. In particular for the coffee category, we adjust our prices and pass through changes in green coffee costs, which affect our net revenues but generally do not affect our bottom-line profitability over time. Our pricing actions may lag commodity cost changes temporarily as competitive or market conditions, planned trade or promotional incentives, or other factors could affect the timing of pricing decisions. We expect price volatility and a slightly higher aggregate cost environment to continue over the remainder of 2014.

A number of external factors such as weather conditions, commodity market conditions, currency fluctuations and the effects of governmental agricultural programs affect the cost of raw materials and agricultural materials used in our products. We also use hedging techniques to limit the impact of fluctuations in the cost of our principal raw materials. However, we do not fully hedge against changes in commodity costs, and our hedging strategies may not protect us from increases in specific raw material costs. While the costs of our principal raw materials fluctuate, we believe there will continue to be an adequate supply of the raw materials we use and that they will generally remain available from numerous sources. However, any significant constraints in the supply of key commodities may limit our ability to grow our net revenues for a period of time.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

See Note 8, *Debt*, for information on debt transactions during the first six months of 2014, including the February 19, 2014 repayment of $500 million of matured U.S. dollar notes, the February 6, 2014 completion of a cash tender offer and retirement of $1.6 billion of long-term U.S. dollar debt and our January 16, 2014 $3.0 billion U.S. dollar note issuance. There were no other material changes to our off-balance sheet arrangements and aggregate contractual obligations disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013. We also do not expect a material change in the effect these arrangements and obligations will have on our liquidity. See Note 12, *Commitments and Contingencies*, for a discussion of guarantees.

Equity and Dividends

Stock Plans:

See Note 11, *Stock Plans*, for more information on our stock plans and award activity for the six months ended June 30, 2014.

Share Repurchases:

During 2013, our Board of Directors authorized the repurchase of $7.7 billion of our Common Stock through December 31, 2016. Repurchases under the program are determined by management and are wholly discretionary.

During the six months ended June 30, 2014, we repurchased 26.0 million shares of Common Stock at an average cost of $35.13 per share, or an aggregate cost of $0.9 billion, of which $0.7 billion was paid during the first half of 2014 and $0.2 billion was prepaid in December 2013 at the inception of an accelerated share repurchase program. All share repurchases were funded through available cash and commercial paper issuances. As of June 30, 2014, we have $4.0 billion in remaining share repurchase capacity.

In December 2013, we initiated an accelerated share repurchase (ASR) program. On December 3, 2013, we paid $1.7 billion and received an initial delivery of 44.8 million shares of Common Stock valued at $1.5 billion. We increased treasury stock by $1.5 billion, and the remaining $0.2 billion was recorded against additional paid in capital. In May 2014, the ASR program concluded and we received an additional 5.1 million shares, valued at $0.2 billion, for a total of 49.9 million shares with an average repurchase price of $34.10 per share over the life of the ASR program. The final settlement was based on the volume-weighted average price of our Common Stock during the purchase period less a fixed per share discount. Upon conclusion of the ASR program and receipt of the remaining repurchased shares, the $0.2 billion recorded in additional paid in capital was reclassified to treasury stock.

We intend to continue to use a portion of our cash for share repurchases. The number of shares that we ultimately repurchase under our share repurchase program may vary depending on numerous factors, including share price and other market conditions, our ongoing capital allocation planning, levels of cash and debt balances, other demands for cash, such as acquisition activity, general economic or business conditions and board and management discretion. Additionally, our share repurchase activity during any particular period may fluctuate. We may accelerate, suspend, delay or discontinue our share repurchase program at any time, without notice.

Dividends:

We paid dividends of $476 million in the first six months of 2014 and $464 million in the first six months of 2013. On August 5, 2014, our Audit Committee, with authorization from our Board of Directors, approved a quarterly dividend of $0.15 per common share or $0.60 per common share on an annual basis. The dividend is payable on October 14, 2014 to shareholders of record at the close of business on September 30, 2014. The declaration of dividends is subject to the discretion of our Board of Directors and depends on various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors that our Board of Directors deems relevant to its analysis and decision making.

Significant Accounting Estimates

We prepare our condensed consolidated financial statements in conformity with U.S. GAAP. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates and assumptions. Our significant accounting policies are described in Note 1 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. Our significant accounting estimates are described in our Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2013. See Note 1, *Basis of Presentation*, for a discussion of the impact of new accounting standards. There were no changes in our accounting policies in the current period that had a material impact on our financial statements.

New Accounting Guidance

See Note 1, *Basis of Presentation*, for a discussion of new accounting guidance.

Contingencies

See Note 12, *Commitments and Contingencies*, and Part II, Item 1. *Legal Proceedings* for a discussion of contingencies.

Table of Contents

Forward-Looking Statements

This report contains a number of forward-looking statements. Words, and variations of words, such as will, may, expect, would, intend, pla believe, anticipate, likely, estimate, guidance, outlook and similar expressions are intended to identify our forward-looking statements, in but not limited to those related to price volatility; the cost environment and measures to address increased costs; our future performance, including our future revenue growth, operating income, earnings per share and margins; growth in emerging markets; economic conditions; customer and consumer dislocation; category growth; commodity prices and supply; currency exchange rates, controls and restrictions; our expansion plans; Spin-Off Costs; legal matters; our entry into and the timeframe for completing the planned coffee business transactions; the cash proceeds and ownership interest to be received in the transactions; the costs of, cost savings generated by, timing of expenditures under and completion of our restructuring programs; our accounting estimates; the estimated value of goodwill and intangible assets; pension expenses, contributions and assumptions; planned efforts and outcome of remediation efforts related to income tax controls; our liquidity, funding sources and uses of funding; reinvestment of earnings; capital expenditures and funding; compliance with financial and long-term debt covenants; debt repayment and funding; our aggregate contractual obligations; our 2014 Outlook, in particular, 2014 Organic Net Revenue growth, Adjusted Operating Income growth, Adjusted Operating Income margin and Adjusted EPS; share repurchases; and our risk management program, including the use of financial instruments for hedging activities.

These forward-looking statements involve risks and uncertainties, many of which are beyond our control. Important factors that could cause actual results to differ materially from those in our forward-looking statements include, but are not limited to, risks from operating globally and in emerging markets; currency exchange rate fluctuations; continued volatility of commodity and other input costs; weakness in economic conditions; continued consumer weakness; pricing actions; increased competition; protection of our reputation and brand image; consolidation of large retail customers; changes in our supplier or customer base; our ability to innovate and differentiate our products; increased costs of sales; regulatory or legal changes, claims or actions; our ability to protect our intellectual property and intangible assets; a shift in our product mix to lower margin offerings; private label brands; strategic transactions; failing to successfully complete the planned coffee business transactions on the anticipated timeframe; the transactions and the restructuring programs not yielding the anticipated benefits; changes in the assumptions on which the restructuring programs are based; perceived or actual product quality issues or product recalls; unanticipated disruptions to our business; volatility of capital or other markets; pension costs; use of information technology; our workforce; a shift in our pre-tax income among jurisdictions, including the U.S.; and tax law changes. For additional information on these and other factors that could affect our forward-looking statements, see our risk factors, as they may be amended from time to time, set forth in our filings with the SEC, including our most recently filed Annual Report on Form 10-K and this Quarterly Report on Form 10-Q. We disclaim and do not undertake any obligation to update or revise any forward-looking statement in this report.

Non-GAAP Financial Measures

We use non-GAAP financial information and believe it is useful to investors as it provides additional information to facilitate comparisons of historical operating results, identify trends in our underlying operating results and provide additional transparency on how we evaluate our business. We use certain non-GAAP financial measures to budget, make operating and strategic decisions and evaluate our performance. We disclose non-GAAP financial measures so that you have the same financial data that we use to assist you in making comparisons to our historical operating results and analyzing our underlying performance.

Our non-GAAP financial measures reflect how we evaluate our current and prior-year operating results. As new events or circumstances arise, these definitions could change over time:

Organic Net Revenue is defined as net revenues excluding the impact of acquisitions, divestitures (including businesses under sale agreements and exits of major product lines under a sale or licensing agreement), Integration Program costs, accounting calendar changes and currency rate fluctuations.

Adjusted Operating Income is defined as operating income excluding the impact of Spin-Off Costs, pension costs related to obligations transferred in the Spin-Off, the 2012-2014 Restructuring Program, the 2014-2018 Restructuring Program, the Integration Program and other acquisition integration costs, the remeasurement of net monetary assets in Venezuela, the benefit from the Cadbury acquisition-related indemnification resolution, costs associated with the JDE coffee transactions, gains / losses on divestitures or acquisitions, acquisition-related costs and the operating results of divestitures (including businesses under sale agreements and exits of major product lines under a sale or licensing agreement). We also evaluate growth in our Adjusted Operating Income on a constant currency basis.

Table of Contents

Adjusted EPS is defined as diluted EPS attributable to Mondelēz International from continuing operations excluding the impact of Spin-Off Costs, pension costs related to the obligations transferred in the Spin-Off, the 2012-2014 Restructuring Program, the 2014-2018 Restructuring Program, the Integration Program and other acquisition integration costs, the remeasurement of net monetary assets in Venezuela, the benefit from the Cadbury acquisition-related indemnification resolution, losses on debt extinguishment and related expenses, the residual tax benefit impact from the resolution of the Starbucks arbitration, costs associated with the JDE coffee transactions, gains / losses on divestitures or acquisitions, acquisition-related costs and net earnings from divestitures (including businesses under sale agreements and exits of major product lines under a sale or licensing agreement), and including an interest expense adjustment related to the Spin-Off transaction. We also evaluate growth in our Adjusted EPS on a constant currency basis.

We believe that the presentation of these non-GAAP financial measures, when considered together with our U.S. GAAP financial measures and the reconciliations to the corresponding U.S. GAAP financial measures, provides you with a more complete understanding of the factors and trends affecting our business than could be obtained absent these disclosures. Because non-GAAP financial measures may vary among other companies, the non-GAAP financial measures presented in this report may not be comparable to similarly titled measures used by other companies. Our use of these non-GAAP financial measures is not meant to be considered in isolation or as a substitute for any U.S. GAAP financial measure. A limitation of these non-GAAP financial measures is they exclude items detailed below which have an impact on our U.S. GAAP reported results. The best way this limitation can be addressed is by evaluating our non-GAAP financial measures in combination with our U.S. GAAP reported results and carefully evaluating the following tables that reconcile U.S. GAAP reported figures to the non-GAAP financial measures in this Form 10-Q. Because GAAP financial measures on a forward-looking basis are neither accessible nor deemed to be significantly different from the non-GAAP financial measures, and reconciling information is not available without unreasonable effort, we have not provided this information in connection with the non-GAAP financial measures in our Financial Outlook.

Organic Net Revenue

Using the definition of Organic Net Revenue above, the only adjustments made to net revenues (the most comparable U.S. GAAP financial measure) were to exclude the impact of currency, divestitures and an acquisition. We believe that Organic Net Revenue better reflects the underlying growth from the ongoing activities of our business and provides improved comparability of results.

	For the Three Months Ended June 30, 2014	2013 (in millions)	$ Change	% Change
Organic Net Revenue	**$ 8,683**	**$ 8,581**	**$ 102**	**1.2%**
Impact of currency	(247)		(247)	(2.9)pp
Impact of divestitures		14	(14)	(0.1)pp
Net revenues	**$ 8,436**	**$ 8,595**	**$ (159)**	**(1.8)%**

	For the Six Months Ended June 30, 2014	2013 (in millions)	$ Change	% Change
Organic Net Revenue	**$ 17,634**	**$ 17,291**	**$ 343**	**2.0%**
Impact of currency	(571)		(571)	(3.3)pp
Impact of divestitures		48	(48)	(0.3)pp
Impact of acquisition	14		14	0.1pp
Net revenues	**$ 17,077**	**$ 17,339**	**$ (262)**	**(1.5)%**

54

Table of Contents

Adjusted Operating Income

Using the definition of Adjusted Operating Income above, the only adjustments made to operating income (the most comparable U.S. GAAP financial measure) were to exclude Spin-Off Costs, 2012-2014 Restructuring Program costs, 2014-2018 Restructuring Program costs, the Integration Program and other acquisition integration costs, the remeasurement of net monetary assets in Venezuela, costs associated with the JDE coffee transactions, net gains on acquisition and divestitures, acquisition-related costs and operating income from divestitures. We also evaluate Adjusted Operating Income on a constant currency basis. We believe these measures provide improved comparability of operating results.

	For the Three Months Ended June 30,			
	2014	2013 (in millions)	$ Change	% Change
Adjusted Operating Income (constant currency)	**$ 1,095**	**$ 979**	**$ 116**	**11.8%**
Impact of unfavorable currency	(35)		(35)	(3.5)pp
Adjusted Operating Income	**$ 1,060**	**$ 979**	**$ 81**	**8.3%**
Spin-Off Costs	(16)	(15)	(1)	0.1pp
2012-2014 Restructuring Program costs	(73)	(55)	(18)	(1.2)pp
2014-2018 Restructuring Program costs	(10)		(10)	(1.2)pp
Integration Program and other acquisition integration costs	1	(53)	54	6.2pp
Costs associated with the JDE coffee transactions	(5)		(5)	(0.6)pp
Gains on divestitures, net		6	(6)	(0.7)pp
Operating income from divestitures		3	(3)	(0.3)pp
Operating income	**$ 957**	**$ 865**	**$ 92**	**10.6%**

	For the Six Months Ended June 30,			
	2014	2013 (in millions)	$ Change	% Change
Adjusted Operating Income (constant currency)	**$ 2,187**	**$ 1,922**	**$ 265**	**13.8%**
Impact of unfavorable currency	(74)		(74)	(3.9)pp
Adjusted Operating Income	**$ 2,113**	**$ 1,922**	**$ 191**	**9.9%**
Spin-Off Costs	(19)	(24)	5	0.4pp
2012-2014 Restructuring Program costs	(139)	(99)	(40)	(1.5)pp
2014-2018 Restructuring Program costs	(10)		(10)	(0.6)pp
Integration Program and other acquisition integration costs	2	(74)	76	4.4pp
Remeasurement of net monetary assets in Venezuela	(142)	(54)	(88)	(4.8)pp
Costs associated with the JDE coffee transactions	(5)		(5)	(0.3)pp
Gains on acquisition and divestitures, net		28	(28)	(1.5)pp
Acquisition-related costs		(2)	2	0.1pp
Operating income from divestitures		2	(2)	(0.2)pp
Operating income	**$ 1,800**	**$ 1,699**	**$ 101**	**5.9%**

55

Table of Contents

Adjusted EPS

Using the definition of Adjusted EPS above, the only adjustments made to diluted EPS attributable to Mondelēz International (the most comparable U.S. GAAP financial measure) were to exclude Spin-Off Costs, 2012-2014 Restructuring Program costs, 2014-2018 Restructuring Program costs, the Integration Program and other acquisition integration costs, losses on debt extinguishment and related expenses, the remeasurement of net monetary assets in Venezuela, costs associated with the JDE coffee transactions, gains on acquisition and divestitures, acquisition-related costs and net earnings from divestitures. We also evaluate Adjusted EPS on a constant currency basis. We believe Adjusted EPS provides improved comparability of operating results.

	For the Three Months Ended June 30,			
	2014	2013	$ Change	% Change
Adjusted EPS (constant currency)	**$ 0.43**	**$ 0.36**	**$ 0.07**	**19.4%**
Impact of unfavorable currency	(0.03)		(0.03)	
Adjusted EPS	**$ 0.40**	**$ 0.36**	**$ 0.04**	**11.1%**
Spin-Off Costs	(0.01)	(0.01)		
2012-2014 Restructuring Program costs	(0.03)	(0.02)	(0.01)	
2014-2018 Restructuring Program costs				
Integration Program and other acquisition integration costs		(0.02)	0.02	
Tax benefit related to remeasurement of net monetary assets in Venezuela	0.01		0.01	
Costs associated with the JDE coffee transactions	(0.01)		(0.01)	
Gains on divestitures, net		0.02	(0.02)	
Net earnings from divestitures				
Diluted EPS attributable to Mondelēz International	**$ 0.36**	**$ 0.33**	**$ 0.03**	**9.1%**

	For the Six Months Ended June 30,			
	2014	2013	$ Change	% Change
Adjusted EPS (constant currency)	**$ 0.83**	**$ 0.72**	**$ 0.11**	**15.3%**
Impact of unfavorable currency	(0.04)		(0.04)	
Adjusted EPS	**$ 0.79**	**$ 0.72**	**$ 0.07**	**9.7%**
Spin-Off Costs	(0.01)	(0.01)		
2012-2014 Restructuring Program costs	(0.06)	(0.04)	(0.02)	
2014-2018 Restructuring Program costs				
Integration Program and other acquisition integration costs		(0.03)	0.03	
Loss on debt extinguishment and related expenses	(0.18)		(0.18)	
Remeasurement of net monetary assets in Venezuela	(0.08)	(0.03)	(0.05)	
Gains on acquisition and divestitures, net		0.03	(0.03)	
Acquisition-related costs		(0.01)	0.01	
Net earnings from divestitures				
Diluted EPS attributable to Mondelēz International	**$ 0.46**	**$ 0.63**	**$ (0.17)**	**(27.0)%**

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

As we operate globally, we use certain financial instruments to manage our currency exchange rate, commodity price and interest rate risks. We monitor and manage these exposures as part of our overall risk management program. Our risk management program focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on our operating results. We maintain currency, commodity price and interest rate risk management policies that principally use derivative instruments to reduce significant, unanticipated earnings fluctuations that may arise from volatility in currency exchange rates, commodity prices and interest rates. We also sell commodity futures to unprice future purchase commitments, and we occasionally use related futures to cross-hedge a commodity exposure. We are not a party to leveraged derivatives and, by policy, do not use financial instruments for speculative purposes. There were no significant changes in the types of derivative instruments we use to hedge our exposures since December 31, 2013. Refer to Note 9, *Financial Instruments*, for additional information on our derivative activity during the first six months of 2014 and the types of derivative instruments we use to hedge our currency exchange, commodity price and interest rate exposures, and refer to Note 1, *Basis of Presentation Currency Translation and Highly Inflationary Accounting*, for additional information on recent currency exchange developments in Venezuela and Argentina and the impact on our financial condition and results of operations.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Management, together with our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of our disclosure controls and procedures (as defined in Securities and Exchange Act of 1934, as amended, Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on their evaluation, the CEO and CFO concluded that, due to a material weakness in our internal control over financial reporting described below, our disclosure controls and procedures were not effective as of June 30, 2014.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

As previously reported in our Annual Report on Form 10-K, as of December 31, 2013, our management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2013, because of the material weakness described in our Annual Report on Form 10-K. Specifically, we did not maintain effective monitoring and oversight of controls over the completeness, accuracy and presentation of our accounting for income taxes, including the income tax provision and related tax assets and liabilities. The underlying control deficiencies resulted in inconsistent reconciliation of account balances, errors in the calculation of certain deferred tax balances, inaccurate information used to assess uncertain tax positions and incorrect balance sheet classification of certain balances.

The errors arising from the control deficiencies were not material to the financial results reported in any interim or annual period. For additional details of the adjustments made related to the first half of 2013, see Note 1, *Basis of Presentation Revision of Financial Statements*.

In light of the weakness in internal control over financial reporting, prior to filing this Quarterly Report on Form 10-Q, we completed substantive procedures, including validating, and in certain cases correcting, the completeness and accuracy of the underlying data used for accounting for income taxes. These additional procedures have allowed us to conclude that, notwithstanding the material weakness in our internal control over financial reporting, the consolidated financial statements included in this report fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

We are implementing the following specific controls to address the material weakness and to strengthen our overall internal control over accounting for income taxes:

- implementing additional monitoring controls through increased documented senior management review,
- performing incremental substantive testing at lower materiality levels,
- enhancing the formality and rigor of reconciliation procedures, and
- hiring additional personnel with accounting for income tax expertise.

Table of Contents

We and our Board of Directors are committed to maintaining a strong internal control environment, and believe that these remediation efforts will represent significant improvements in our controls over the accounting for income taxes. Some of these controls will take time to be fully integrated and confirmed to be effective and sustainable. Additional controls may also be required over time. As such, the identified material weakness in internal control will not be considered fully addressed until the internal controls over the income tax process have been in operation for a sufficient period of time for our management to conclude that the material weakness has been fully remediated. We continue to work on implementing the new controls in order to make this final determination.

Changes in Internal Control Over Financial Reporting

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended June 30, 2014. As outlined above, we are in the process of adding controls to remediate the material weakness related to the accounting for income taxes identified as of December 31, 2013. There were no other changes in our internal control over financial reporting during the quarter ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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

Information regarding Legal Matters is available in Note 12, *Commitments and Contingencies*, to the consolidated financial statements in this report.

While we cannot predict with certainty the results of any Legal Matters in which we are currently involved, we do not expect that the ultimate costs to resolve any of these Legal Matters, individually or in the aggregate, will have a material effect on our financial results.

Item 1A. Risk Factors.

There were no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

Table of Contents

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

The following table shows the share repurchase activity for each of the three months in the quarter ended June 30, 2014:

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Maximum Dollar Value of Shares That May Yet be Purchased Under the Program (2)
April 1-30, 2014	4,869,164	$ 34.92	4,851,200	$ 4,299,112,067
May 1-31, 2014	6,022,343	37.28	6,009,900	$ 4,075,036,270
June 1-30, 2014	725,074	37.01	717,288	$ 4,048,483,484
For the Quarter Ended June 30, 2014	11,616,581	36.28	11,578,388	

(1) The total number of shares purchased includes: (i) shares purchased pursuant to the repurchase program described in footnote 2 below; and (ii) shares tendered to us by employees who used shares to exercise options and to pay the related taxes for grants of restricted and deferred stock that vested, totaling 17,964 shares, 12,443 shares and 7,786 shares for the fiscal months of April, May and June 2014, respectively.

(2) During 2013, our Board of Directors authorized the repurchase of $7.7 billion of our Common Stock through December 31, 2016. On March 12, 2013, our Board of Directors authorized the repurchase of up to the lesser of 40 million shares or $1.2 billion of our Common Stock through March 12, 2016. On August 6, 2013, our Audit Committee, with authorization delegated from our Board of Directors, increased the repurchase program capacity to $6.0 billion of Common Stock repurchases and extended the expiration date to December 31, 2016. On December 3, 2013, our Board of Directors approved an increase of $1.7 billion to the program related to a new accelerated share repurchase program, which concluded in May 2014. See Note 11, *Stock Plans*, for additional information.

Table of Contents

Item 6. Exhibits.

Exhibit Number	Description
10.1	Global Contribution Agreement by and among Mondelēz International Holdings, LLC, Acorn Holdings B.V., Charger Top HoldCo B.V. and Charger OpCo B.V., dated May 7, 2014.*
10.2	Shareholders Agreement by and among Mondelēz International Holdings, LLC, Delta Charger HoldCo B.V. and Charger Top HoldCo B.V., dated May 7, 2014.*
10.3	Mondelēz International, Inc. Amended and Restated 2005 Performance Incentive Plan, amended and restated as of May 21, 2014 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the SEC on May 22, 2014).
10.4	Mondelēz International, Inc. Change in Control Plan for Key Executives, amended as of May 21, 2014.
11	Computation of Per Share Earnings.**
12	Computation of Ratios of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following materials from Mondelēz International s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 are formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Statements of Comprehensive Earnings, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements.

* Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment and have been separately filed with the SEC.

** Data required by Item 601(b)(11) of Regulation S-K is provided in Note 15 to the condensed consolidated financial statements in this Report.

61

Table of Contents

Signature

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

MONDELĒZ INTERNATIONAL, INC.

/s/ David A. Brearton
David A. Brearton
Executive Vice President and
Chief Financial Officer

August 8, 2014