

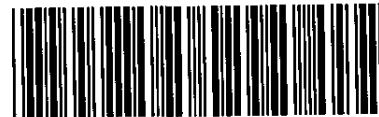
---

**Mars Petcare UK**

---

**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 30 DECEMBER 2017**

THURSDAY



A23 \*A7EF4Y3D\* #268  
13/09/2018  
COMPANIES HOUSE

*Handwritten notes:*  
2017/18  
2018  
13

---

**Mars Petcare UK**

---

**CONTENTS**

---

	Page
<b>Strategic Report</b>	1 - 3
<b>Directors' Report</b>	4 - 6
<b>Independent Auditors' Report</b>	7 - 9
<b>Income Statement</b>	10
<b>Statement of Comprehensive Income</b>	11
<b>Statement of Financial Position</b>	12 - 13
<b>Statement of Changes in Equity</b>	14 - 15
<b>Notes to the Financial Statements</b>	16 - 44

**STRATEGIC REPORT  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

The directors present their Strategic Report and the financial statements for the period ended 30 December 2017. The results represent the 52 week period ended 30 December 2017, and the comparatives represent the 52 week period ended 31 December 2016.

**Principal activities**

The principal activities of the company are the manufacture and sale of pet food related products.

**Business review and future development**

The profit for the financial period, amounted to £48,679,000 (2016: £65,806,000). As at 30 December 2017 the company had net assets of £223,702,000 (2016: £210,722,000).

Dividends of £79,687,000 (2016: £nil) have been proposed and paid to holders of the ordinary shares, this represents £158 73863 (2016: nil) per share. No final dividend has been proposed (2016: £nil).

The performance of the period reflects the investment into products, brands, processes and customer relationships as part of our on-going strategy to reflect and adapt to anticipated changes in consumer attitudes and behaviour, as well as increase the focus on key areas of the market place.

The business continues to concentrate its research and development efforts on improving its product ranges, so it is best placed to service the markets in which it operates.

The directors consider that the company is well placed to take advantage of changes in the market place and that recent levels of profitability will be maintained.

The directors do not expect any significant change in the nature of the company's business for the foreseeable future.

**Principal risks and uncertainties**

The principal risks and uncertainties facing the business include:

- possible fluctuations in the price and availability of raw materials;
- accidental or malicious contamination of our products or their ingredients, despite the fact that the company manufactures products in accordance with the highest standards of quality and food safety,
- potential disruption of our manufacturing and/or distribution process in the event of circumstances beyond our control such as adverse weather, flood, fire, system failure or a major interruption in the supply of raw material;
- pricing pressure as a result of consolidation of the retail trade,
- the need for the company to contribute significant additional funding to the company's pension plans in the event that the investment performance or changes in actuarial assumptions of the pension funds result in the plans being under-funded.

These risks and uncertainties are managed day to day by discreet management teams responsible for each segment of the company's business and who report to the directors.

**STRATEGIC REPORT (CONTINUED)  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**Financial key performance indicators ("KPIs")**

The directors consider the following indicators to be key in measuring the performance of the business:

	30 December 2017	31 December 2016
	£'000	£'000
Turnover	513,072	512,761
Profit before taxation	62,742	83,662
Gross profit margin (%)	25	28
Operating profit margin (%)	13	16

During the period sales grew which is reflective of the continued business focus and investment into products, brands, processes and consumer relationships

**Financial risk management**

The company's operations expose it to a variety of financial risks that include the effects of changes in commodity prices, credit risk, counterparty risk, interest rate risk, liquidity risk and foreign exchange risk. The company seeks to limit the adverse effects on the financial performance of the company by monitoring the impact of these and addressing them accordingly.

The company has specific policies and guidelines to manage financial risk and these policies are implemented by the company's finance department.

*Commodity price risk*

The company is exposed to commodity price risk as a result of its operations. The company mitigates this risk by agreeing fixed price medium term contracts.

*Credit risk*

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Ongoing review of credit checks are made on customers depending on changes in trading relationships, information received from other sources and time elapsed from previous information obtained.

*Counterparty risk*

The counterparties for derivative contracts are financial institutions that have a minimal A rating or with counterparties that operate on exchanges thus limiting any credit risk, or with the intermediate parent company Food Manufacturers (G.B. Company). Taken together the company believes it has minimal credit risk related to derivative instruments.

*Interest rate risk*

The main exposure to interest rate risk is the inter-company balances. Interest is charged at a rate of up to 1% above the UK base rate and is reviewed and monitored by management regularly. Given the nature of this, the directors do not believe that it is appropriate to use any instruments to manage this exposure.

*Liquidity risk*

The company is cash generative. To the extent necessary it is supported by its intermediate parent company, Food Manufacturers (G B Company).

---

Mars Petcare UK

---

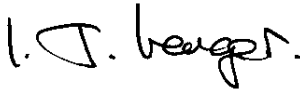
**STRATEGIC REPORT (CONTINUED)  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

*Foreign exchange risk*

The company is exposed to foreign exchange rate risk as a result of its operations. Suitable forward rate contracts are used to hedge the rate risk. All contracts are valued using widely available forward prices.

This report was approved by the board on 3 May 2018 and signed on its behalf.



**I Langer  
Director**

**DIRECTORS' REPORT  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

The directors present their report and the audited financial statements for the period ended 30 December 2017. The results represent the 52 week period ended 30 December 2017, and the comparatives represent the 52 week period ended 31 December 2016.

**Directors' responsibilities statement**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements,
- make judgements and accounting estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Results and dividends**

The profit for the period amounted to £48,679,000 (2016: £65,806,000).

Dividends of £79,687,000 (2016: £nil) have been proposed and paid to holders of the ordinary shares, this represents £158 73863 (2016: nil) per share. No final dividend has been proposed (2016: £nil).

**Directors**

The directors who served during the period and up to the date of signing the financial statements were:

D Watkins (appointed 7 September 2017)  
C Williams (resigned 29 December 2017)  
I Langer  
D Guha (resigned 14 July 2017)  
D Haines  
A Parton

**DIRECTORS' REPORT (CONTINUED)  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**Directors' indemnities**

The company maintains liability insurance for its directors and officers, which is a qualifying third party indemnity provision for the purpose of the Companies Act 2006. The indemnity was in force throughout the financial period and also at the date of approval of the financial statements.

**Political contributions**

No political donations were made during the period (2016: £nil)

**Future developments**

Details of future developments shown in the strategic report.

**Financial risk management**

Details of financial risk management are shown in the strategic report.

**Going concern**

Details of going concern are shown in the accounting policies.

**Associates**

The company believes that it is important that all associates are closely involved in the fortunes of the business for which they work and have a clear understanding of the particular contribution which each should make to the realisation of that business' objectives.

Communication has continued at all levels, with the aim that all associates are aware of the financial and economic performance of the business. Over a long period, the business has developed a variety of communication and discussion practices closely tailored to its particular needs and circumstances, the most important of these being regular briefing sessions of associates with their managers. Associates are asked to take on direct and total responsibility for results, exercising initiative and making decisions, as their tasks require. Linking the business pay plan to its major operating and financial results further strengthens the mutuality of associates' involvement in the performance of the business.

Single status treatment of its associates is one of the hallmarks of the company's industrial relations policy. It is an equal opportunity employer, the only criteria for selection and promotion being the skills and aptitude of the individual in relation to the particular job and needs of the business concerned.

The company is glad to provide worthwhile employment for disabled or medically restricted persons. It is the company's practice to identify jobs that are within the capabilities of such persons and fill them with these personnel. Should associates become disabled, it is the company's policy to continue their employment where possible with appropriate training and redeployment where necessary.

Training and career development programmes are designed on an individual basis for all associates so that the particular needs and aptitudes of each person can best be met and developed.

**DIRECTORS' REPORT (CONTINUED)  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**Disclosure of information to independent auditors**

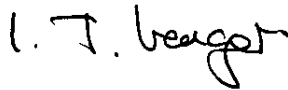
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Independent auditors**

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier.

This report was approved by the board on 3 May 2018 and signed on its behalf.



**I Langer  
Director**



---

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARS PETCARE UK**

---

## **Report on the audit of the financial statements**

### **Opinion**

In our opinion, Mars Petcare UK's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 December 2017 and of its profit for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 30 December 2017; the income statement, the statement of comprehensive income, the statement of changes in equity for the 52 week period then ended, and the notes to the financial statements, which include a description of the significant accounting policies.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

### *Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

---

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARS PETCARE UK**

---

**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 30 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

**Responsibilities for the financial statements and the audit**

*Responsibilities of the directors for the financial statements*

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

---

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARS PETCARE UK**

---

*Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

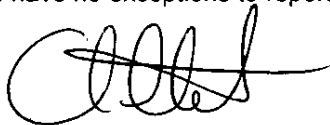
**Other required reporting**

**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made, or
- the financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility.



Christopher Hibbs (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
East Midlands

3 May 2018

Mars Petcare UK

**INCOME STATEMENT  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

		Period ended 30 December 2017 £000	Period ended 31 December 2016 £000
	Note		
Turnover	4	513,072	512,761
Cost of sales		(384,485)	(370,213)
<b>Gross profit</b>		<b>128,587</b>	<b>142,548</b>
Distribution costs		(35,769)	(32,641)
Administrative expenses		(29,937)	(30,612)
Other operating income	5	1,603	1,508
<b>Operating profit</b>	9	<b>64,484</b>	<b>80,803</b>
Interest receivable and similar income	11	72	1,103
Interest payable and similar expenses	12	(1,151)	(1,339)
Other finance (costs)/income	13	(663)	3,095
<b>Profit before taxation</b>		<b>62,742</b>	<b>83,662</b>
Tax on profit on ordinary activities	14	(14,063)	(17,856)
<b>Profit for the financial period</b>		<b>48,679</b>	<b>65,806</b>

All amounts relate to continuing operations

The notes on pages 16 to 44 form part of these financial statements.

---

**Mars Petcare UK**

---

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

	<b>Note</b>	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Profit for the financial period		<b>48,679</b>	65,806
<b>Other comprehensive income/(expense)</b>			
Actuarial gain/(loss) on defined benefit schemes	<b>26</b>	<b>52,637</b>	(141,003)
Movement on deferred tax relating to pension gain/(loss)		<b>(11,277)</b>	19,162
Movement on current tax relating to pension gain/(loss)		<b>2,628</b>	6,312
<b>Other comprehensive income/(expense) for the period</b>		<b>43,988</b>	(115,529)
<b>Total comprehensive income/(expense) for the period</b>		<b>92,667</b>	(49,723)
The notes on pages 16 to 44 form part of these financial statements.			

**Mars Petcare UK**  
**REGISTERED NUMBER:06649984**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 DECEMBER 2017**

	Note	30 December 2017 £000	31 December 2016 £000
<b>Fixed Assets</b>			
Intangible assets	16	16,874	18,047
Tangible assets	17	86,900	99,052
		<u>103,774</u>	<u>117,099</u>
<b>Current assets</b>			
Stocks	18	28,201	25,214
Pension asset due after more than one year	26	42,710	-
Debtors amounts falling due within one year	19	320,922	338,138
Cash at bank and in hand		1,953	2,587
		<u>393,786</u>	<u>365,939</u>
Creditors amounts falling due within one year	20	(241,777)	(227,040)
<b>Net current assets</b>		<u>152,009</u>	<u>138,899</u>
<b>Total assets less current liabilities</b>		<u>255,783</u>	<u>255,998</u>
Creditors: amounts falling after more than one year	21	(48)	(79)
		<u>255,735</u>	<u>255,919</u>
<b>Provision for liabilities</b>			
Pension liability	26	(26,318)	(45,197)
Deferred tax liability		(5,715)	-
		<u>(32,033)</u>	<u>(45,197)</u>
<b>Net assets</b>		<u>223,702</u>	<u>210,722</u>
<b>Capital and reserves</b>			
Called up share capital	24	502	502
Retained profit		223,200	210,220
<b>Total equity</b>		<u>223,702</u>	<u>210,722</u>

---

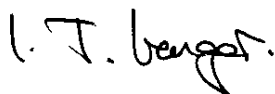
Mars Petcare UK  
REGISTERED NUMBER:06649984

---

STATEMENT OF FINANCIAL POSITION (CONTINUED)  
AS AT 30 DECEMBER 2017

---

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 3 May 2018.



I Langer  
Director

The notes on pages 16 to 44 form part of these financial statements.

---

**Mars Petcare UK**

---

**STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

	Called up share capital	Retained profit	Total equity
	£000	£000	£000
At 1 January 2017	502	210,220	210,722
<b>Comprehensive income for the period</b>			
Profit for the financial period	-	48,679	48,679
Actuarial gain on defined benefit scheme	-	52,637	52,637
Movement on deferred tax relating to pension gain	-	(11,277)	(11,277)
Movement on current tax relating to pension gain	-	2,628	2,628
<b>Other comprehensive income for the period</b>	-	43,988	43,988
<b>Total comprehensive income for the period</b>	-	92,667	92,667
Dividends Equity capital	-	(79,687)	(79,687)
<b>At 30 December 2017</b>	<b>502</b>	<b>223,200</b>	<b>223,702</b>

The notes on pages 16 to 44 form part of these financial statements



---

**Mars Petcare UK**

---

**STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 31 DECEMBER 2016**

---

	Called up share capital	Retained profit	Total equity
	£000	£000	£000
At 3 January 2016	502	259,943	260,445
<b>Comprehensive expense for the period</b>			
Profit for the financial period	-	65,806	65,806
Actuarial loss on defined benefit schemes	-	(141,003)	(141,003)
Movement on deferred tax relating to pension loss	-	19,162	19,162
Movement on current tax relating to pension loss	-	6,312	6,312
<b>Other comprehensive expense for the period</b>	-	(115,529)	(115,529)
<b>Total comprehensive expense for the period</b>	-	(49,723)	(49,723)
<b>At 31 December 2016</b>	<b>502</b>	<b>210,220</b>	<b>210,722</b>

The notes on pages 16 to 44 form part of these financial statements.

---

## **Mars Petcare UK**

---

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

#### **1. General information**

Mars Petcare UK ('the Company') manufactures and sells pet food related products. The company is a private unlimited company and is incorporated in England. The address of its registered office is 3D Dundee Road, Slough, Berkshire, SL1 4LG.

The financial statements of Mars Petcare UK have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standards 102, "The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

#### **2. Summary of significant accounting policies**

##### **2.1 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland (FRS 102) and the Companies Act 2006, as modified by recognition of certain

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas assumptions and estimates significant to the financial statements are disclosed in note 3.

##### **2.2 Going concern**

The Directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

##### **2.3 Exemptions for qualifying entities under FRS 102**

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions:

(i) from preparing a statement of cash flows, required under FRS102 paragraph 1.12 (b), on the basis that it is a qualifying entity and its intermediate parent company, Wm. Wrigley Jr. Company, includes the company's cash flows in its own consolidated financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**2. Summary of significant accounting policies (continued)**

**2.4 Turnover**

Turnover comprises sales to customers (excluding VAT) and is stated at amounts invoiced to customers after discounts and rebates. Consideration received from customers is only recorded as turnover when the company has completed full performance in respect of that consideration

The company bases its estimate of discounts and rebates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Company retains no continuing involvement or control over the goods, (c) the amount of revenue can be measured reliably and (d) it is probable that future economic benefits will flow to the entity.

**2.5 Interest income**

Interest income is recognised using the effective interest rate method.

**2.6 Financial instruments**

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

**(i) Financial assets**

Basic financial assets, including trade and other receivables, amounts owed by group undertakings, and cash and bank balances are initially recognised at transaction price

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions

**(ii) Financial liabilities**

Basic financial liabilities, including trade and other payables, and amounts owed to group undertakings that are classified as debt, are initially recognised at transaction price.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**2. Summary of significant accounting policies (continued)**

**2.6 Financial instruments (continued)**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

**(iii) Derivatives**

Forward foreign exchange contracts are derivatives and are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the income statement in cost of sales.

The fair value of forward foreign exchange contracts is determined using valuation techniques that utilise observable inputs (Level 2). The key assumptions used in valuing the derivatives are the forward exchange rates relating to the relevant currency pairs and maturity dates of individual instruments held.

The company does not apply hedge accounting for derivatives.

**(iv) Offsetting**

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**2.7 Research and development**

Research and development expenditure is written off in the period in which it is incurred.

**2.8 Operating leases**

Leases that do not transfer significant risks and rewards are classified as operating leases.

Rentals under operating leases are charged to the income statement on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period of the lease.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**2. Summary of significant accounting policies (continued)**

**2.9 Leased assets: Lessee**

Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Assets obtained under hire purchase contracts and finance leases are capitalised at the commencement of the lease as tangible fixed assets, at the fair value of the lease asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined, the Company's incremental borrowing rate is used. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives.

Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the income statement so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

**2.10 Stocks**

Stocks are stated at the lower of cost and net realisable value. Stocks are recognised as an expense in the period in which the related revenue is recognised. Cost is determined on a first in first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads, including a share of manufacturing depreciation, based on the normal level of activity. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Where necessary, provision is made for obsolete, slow moving and defective stock

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the income statement. Where a reversal of the impairment is recognised the impairment charge is reversed up to the original impairment loss, and is recognised as a credit in the income statement

**2.11 Intangible assets**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

- Software ~ 3 years

Amortisation is charged to the income statement.

Where there are indicators that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**2. Summary of significant accounting policies (continued)**

**2.12 Goodwill**

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the company's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

Goodwill is amortised over its expected useful life which is assessed to be 50 years given the longstanding established brands supporting this longevity.

Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement.

Reversals of impairment are recognised when the reasons for impairment no longer apply.

**2.13 Tangible fixed assets**

Tangible fixed assets are stated at cost less depreciation and accumulated impairment losses. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Depreciation is provided on the following basis:

Freehold land	- Not depreciated
Plant & machinery	- 10-50% per annum
Freehold property	- 5-10% per annum

No depreciation is charged on assets which have yet to be commissioned. Depreciation is charged from the month in which the asset is brought into use.

Accelerated depreciation may be charged where the directors consider there to have been a reduction in the useful economic life of an asset or an impairment in the underlying value of an asset.

Tangible fixed assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**2. Summary of significant accounting policies (continued)**

**2.14 Employee benefits**

Mars Petcare UK provides a range of benefits to employees.

**(i) Short term employee benefits**

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

**(ii) Multi employer defined benefit plan**

Mars Petcare UK participates, along with other employers in the Effem Holdings Limited Group, in a non-contributory, self-administered defined benefit pension plan, which is funded. Assets are held in a separately administered fund.

In accordance with FRS 102 paragraph 28 11, Mars Petcare UK has recognised a share of the funded position of the pension plan based on the contributions payable.

The contributions to the defined benefit pension plan are assessed in accordance with the advice of a qualified actuary based on actuarial valuations normally conducted every three years using the projected unit credit method. The assets of the plans are held in a separate trustee administered fund. The surplus or deficit of the defined benefit plan represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the statement of financial position date.

The pension charge recognised in the income statement consists of current service costs. In addition a finance cost is charged based on the interest on pension plan liabilities less the expected return on pension assets. Differences between the actual and expected return on assets, experience gains and losses and changes in actuarial assumptions are included directly in the statement of comprehensive income.

**(iii) Defined contribution plan**

For associates who have joined since 1 January 2003, a defined contribution plan, the Associates Savings Plan ("ASP") is available. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

**(iv) Deferred cash promises**

The company operates unfunded, non-contributory, self administered deferred cash promise. The promise is recognised in full in the statement of financial position and represents the present value of the promise obligation at the statement of financial position date.

The company operates unfunded non-contributory, self administered, deferred cash promises and pension promises to certain associates who have joined the UK business. The promise is recognised in full in the statement of financial position and represents the present value of the promise obligation at the statement of financial position date.

The charge recognised in the income statement consists of current service costs. In addition a finance cost is charged based on the interest on promise liabilities. Experience gains and losses and changes to actuarial assumptions are included directly in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**2. Summary of significant accounting policies (continued)**

**2.14 Employee benefits (continued)**

Curtailment gains and losses are measured using actuarial assumptions. Curtailment gains and losses are taken to the income statement account when the company is irrevocably committed to the transaction.

**2.15 Long-term incentives**

Liabilities under long-term incentive schemes payable on retirement are based on an actuarial valuation and actuarial gains and losses are recognised as employee expenses.

**2.16 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

**2.17 Foreign currency translation**

**(i) Functional and presentation currency**

The Company's functional and presentation currency is the pound sterling and rounded to thousands.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the rate of exchange appropriate to the date of the transaction.

At each period end foreign currency monetary items are translated using the closing rate. Non monetary items measured at historical cost are translated using the exchange rate at the date of the transaction

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. All other foreign exchange gains and losses are presented in the income statement.

**2.18 Current taxation**

Current tax is the amount of income tax payable in respect of the taxable profit for the period or prior periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The taxation liabilities of certain group companies are reduced wholly or in part by the surrender of losses by fellow group companies.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**2. Summary of significant accounting policies (continued)**

**2.19 Deferred taxation**

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

**2.20 Impairment of non-financial assets**

At each statement of financial position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the income statement.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement.

**2.21 Provisions for liabilities**

A provision is recognised in the statement of financial position when the company has a legal or constructive obligation as result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognised when the expected benefits to be derived by the company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**2. Summary of significant accounting policies (continued)**

**2.22 Contingencies**

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable

**2.23 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

**2.24 Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

**2.25 Related party transactions**

The Company is exempt from disclosing transactions with related parties, which are wholly owned within the group

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**3. Judgments in applying accounting policies and key sources of estimation uncertainty**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below.

**(i) Multi employer defined plan and defined cash promises**

The Company has obligations to pay pension benefits and deferred cash promises to certain employees. The present value of the assets and obligations depend on a number of factors, including; life expectancy, salary increases and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends.

**(ii) Useful economic lives of tangible fixed assets**

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

**iii) Impairment of debtors**

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 17 for the net carrying amount of the debtors and associated impairment provision.

**iv) Trade Spend rebate arrangement**

As part of the normal course of business, the Company has entered into rebate arrangement with customers whereby so called on-invoice and off-invoice (discretionary spend) promotions are applied to invoiced sales, based upon achievements of criteria set out upon arrangement. For the promotions activities not settled with customers at year end, the Company is required to make estimates of the discretionary spend achieved. Discounts and promotion arrangements are customer specific; they are tailored to specific contracts and the terms can vary greatly from customer to customer. The trade spend rebate accrual is calculated per customer using data from the point of sale and arrangements with customers. The discretionary trade spend rebate amount accrued represent management's best estimate at a point in time but the ultimate amounts that will be paid can vary depending on customers post year sales patterns or the levels of claims received in comparisons to management's best estimates. All amounts paid or payable to customers are shown as a reduction to revenue in the income statement. Unutilised accruals are released after two years following the year in which the claim is raised, which is in line with the industry regulations.

**4. Turnover**

The company's activities consist solely of the manufacture and sale of pet food and pet food related products.

The directors are of the opinion that disclosure of turnover and operating result by geographical location would be seriously prejudicial to the interests of the company, and therefore segmental analysis as required by Companies Act 2006 has not been made.

---

**Mars Petcare UK**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**5. Other operating income**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Research and development expenditure credit	<b>1,603</b>	1,508
	<b>1,603</b>	1,508

**6. Employees**

Staff costs were as follows:

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
<i>Wages and salaries</i>	<b>50,259</b>	52,779
Social security costs	<b>6,520</b>	6,104
Other pension and deferred benefit costs (note 25)	<b>17,512</b>	15,101
	<b>74,291</b>	73,984

The average monthly number of employees, including the directors, during the period was as follows:

	<b>30 December 2017 No.</b>	<b>31 December 2016 No.</b>
Production	<b>482</b>	432
Selling and distribution	<b>196</b>	207
Administration	<b>350</b>	396
	<b>1,028</b>	1,035

---

Mars Petcare UK

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**7. Directors' remuneration**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Directors' emoluments	<b>868</b>	833
	<b>868</b>	<b>833</b>

The highest paid director received remuneration of £374,000 (2016: £656,000)

The value of defined benefit pension scheme accrued pension in respect of the highest paid director amounted to £nil (2016: £67,000)

Retirement benefits are accruing to 6 directors (2016: 6) under the group's defined benefit schemes and to 6 directors (2016: 2) under money purchase pension schemes.

**8. Key Management Compensation**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Salaries and other short-term benefits	<b>1,453</b>	2,074
	<b>1,453</b>	<b>2,074</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

**9. Operating profit**

The operating profit is stated after charging/(crediting)

	<b>31 December 2017 £000</b>	<b>31 December 2016 £000</b>
Amortisation of intangible assets	1,236	227
Impairment of stock	628	940
Depreciation of tangible fixed assets	19,168	13,400
Loss on disposal of fixed assets	69	248
Hire of plant and machinery under operating leases	171	229
Research and development	4,180	5,833
Rental of properties under operating leases	13,021	12,831
Stock recognised as an expense	344,637	328,195
Debtors written off to/(released from) bad debt provision	10	(128)
Derivative financial instrument loss/(gain)	861	(674)

The research and development costs incurred by the company, before recharges made to other group companies, were £26,675,000 (2016: £29,593,000).

Derivative financial instruments relate to forward foreign currency contracts that the company enters into to mitigate foreign exchange risk.

---

**Mars Petcare UK**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**10. Auditors' remuneration**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	<b>95</b>	<b>88</b>
	<b>95</b>	<b>88</b>
<b>Fees payable to the Company's auditor and its associates in respect of:</b>		
Other services relating to taxation	<b>349</b>	<b>338</b>
All other services	<b>40</b>	<b>18</b>
	<b>389</b>	<b>356</b>

The fees relating to non-audit services represent a share of the UK group costs

Audit fees in respect of shared service functions are borne by Mars Polska Sp. z o.o. on behalf of Mars Petcare UK.

**11. Interest receivable and similar income**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Interest receivable from group undertakings	<b>71</b>	<b>1,094</b>
Other interest receivable	<b>1</b>	<b>9</b>
	<b>72</b>	<b>1,103</b>

---

Mars Petcare UK

---

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017

---

12. Interest payable and similar expenses

	30 December 2017 £000	31 December 2016 £000
Bank interest payable	1	1
Loans from group undertakings	1,150	1,338
	<u>1,151</u>	<u>1,339</u>

13. Other finance (costs)/income

	30 December 2017 £000	31 December 2016 £000
Interest on pension scheme (liabilities)/assets (note 25)	(663)	3,095
	<u>(663)</u>	<u>3,095</u>



---

**Mars Petcare UK**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**14. Tax on profit on ordinary activities**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
<b>Tax included within the income statement</b>		
Current tax on profits for the period	<b>16,857</b>	18,956
Adjustments in respect of prior periods	<b>(540)</b>	(141)
	<u><b>16,317</b></u>	<u>18,815</u>
<b>Total current tax</b>	<u><b>16,317</b></u>	<u>18,815</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	<b>(3,136)</b>	(2,092)
Effect of change in tax rate	<b>367</b>	(103)
Adjustments in respect of prior periods	<b>515</b>	1,236
<b>Total deferred tax</b>	<u><b>(2,254)</b></u>	<u>(959)</u>
<b>Taxation on profit on ordinary activities</b>	<u><b>14,063</b></u>	<u>17,856</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

**14. Tax on profit on ordinary activities (continued)**

**Factors affecting tax charge for the period**

The tax assessed for the period is higher than (2016 - higher than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%). The differences are explained below:

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Profit before taxation	<b>62,742</b>	83,662
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%)	<b>12,078</b>	16,732
<b>Effects of:</b>		
Adjustments in respect of prior periods	<b>(23)</b>	1,096
Permanent differences	<b>1,641</b>	131
Changes to tax rates	<b>367</b>	(103)
<b>Total tax charge for the period</b>	<b>14,063</b>	17,856

**Factors that may affect future tax charges**

The Finance Act 2016 included legislation to reduce the rate to 17% from 1 April 2020. The reduction has been enacted at the statement of financial position date and therefore, reflected in these financial statements.

**15. Dividends**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Interim dividend of £158.73863 (2016. nil) per share paid in period	<b>79,687</b>	-
	<b>79,687</b>	-

---

**Mars Petcare UK**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**16. Intangible assets**

	Software £000	Goodwill £000	Total £000
<b>Cost</b>			
At 1 January 2017	2,838	17,419	20,257
Additions	63	-	63
At 30 December 2017	<u>2,901</u>	<u>17,419</u>	<u>20,320</u>
<b>Accumulated Amortisation</b>			
At 1 January 2017	2,210	-	2,210
Charge for the period	191	1,045	1,236
At 30 December 2017	<u>2,401</u>	<u>1,045</u>	<u>3,446</u>
<b>Net book value</b>			
At 30 December 2017	<u>500</u>	<u>16,374</u>	<u>16,874</u>
31 December 2016	<u>628</u>	<u>17,419</u>	<u>18,047</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017

17. Tangible fixed assets

	Freehold land & property £000	Plant & machinery £000	Capital work in progress £000	Total £000
<b>Cost or valuation</b>				
At 1 January 2017	74,226	95,235	4,178	173,639
Additions	1,273	419	5,393	7,085
Disposals	(35)	(1,288)	-	(1,323)
Transfers between classes	1,276	3,465	(4,741)	-
At 30 December 2017	76,740	97,831	4,830	179,401
<b>Accumulated Depreciation</b>				
At 1 January 2017	26,583	48,004	-	74,587
Charge for the period on owned assets	8,466	10,702	-	19,168
Disposals	(31)	(1,223)	-	(1,254)
At 30 December 2017	35,018	57,483	-	92,501
<b>Net book value</b>				
At 30 December 2017	41,722	40,348	4,830	86,900
31 December 2016	47,643	47,231	4,178	99,052

---

**Mars Petcare UK**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**18. Stocks**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Raw materials and consumables	4,519	4,900
Finished goods and goods for resale	23,682	20,314
	<u><b>28,201</b></u>	<u><b>25,214</b></u>

At 30 December 2017, depreciation of £416,000 (2016: £326,000) has been included in the finished stock valuation.

Stocks are stated after provisions for impairment of £1,243,000 (2016: £1,355,000).

There is no significant difference between the replacement cost of stock and its carrying value.

**19. Debtors**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Trade debtors	23,335	19,299
Amounts owed by group undertakings	293,362	312,196
Other debtors	3,161	2,368
Derivative financial instrument (note 21)	296	844
Prepayments and accrued income	768	123
Deferred tax debtors (note 22)	-	3,308
	<u><b>320,922</b></u>	<u><b>338,138</b></u>

Amounts owed by group undertakings relate to trading balances and unsecured loans, which are payable on demand. Interest is charged at a rate not exceeding 1% above the UK base rate on unsecured loans, with no interest charged on short term trading balances.

Trade debtors are stated after provisions for impairment of £473,000 (2016: £463,000)

---

**Mars Petcare UK**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**20. Creditors: Amounts falling due within one year**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Trade creditors	69,534	58,557
Amounts owed to group undertakings	109,327	114,540
Corporation tax	6,840	4,728
Other taxation and social security	13,799	14,005
Derivative financial instruments note (note 21)	570	337
Accruals and deferred income	41,707	34,873
	<u>241,777</u>	<u>227,040</u>

Amounts owed to group undertakings relate to trading balances and unsecured loans, which are payable on demand. Interest is charged at a rate not exceeding 1% above the UK base rate on unsecured loans, with no interest charged on short term trading balances

**21. Creditors: Amounts falling due after more than one year**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Other creditors	48	79
	<u>48</u>	<u>79</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

**22. Financial instruments**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
<b>Financial assets</b>		
Financial assets measured at fair value through income statement:		
Derivative financial instrument	<b>296</b>	<b>844</b>
Financial assets measured at amortised cost:		
Cash in bank and in hand	<b>1,953</b>	<b>2,587</b>
Trade debtors	<b>23,335</b>	<b>19,299</b>
Other debtors	<b>3,161</b>	<b>2,368</b>
Amount owed by group undertakings	<b>293,362</b>	<b>312,196</b>
	<b>322,107</b>	<b>337,294</b>
<b>Financial liabilities</b>		
Financial liabilities measured at fair value through income statement:		
Derivative financial instruments	<b>570</b>	<b>337</b>
Financial liabilities measured at amortised cost:		
Trade creditors	<b>69,534</b>	<b>58,558</b>
Amounts and loans owed to group undertakings	<b>109,327</b>	<b>114,539</b>
	<b>179,431</b>	<b>173,434</b>

**Derivative financial instruments - Forward contracts**

Financial assets and liabilities measured at fair value through income statement comprise forward foreign exchange contracts used to hedge foreign currency exposures of the company. At 30 December 2017, these contracts mature within 12 months (2016: 12 months) of the year-end date. These are measured at fair value, which is determined using valuation techniques that utilise observable inputs, the key inputs used in valuing the derivatives are forward exchange rates. At 30 December 2017, the fair value of foreign exchange forward contracts held are an asset position of £296,000 (2016: £844,000) and a liability position of £570,000 (2016: £337,000).

Mars Petcare UK

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017

23. Deferred Taxation

	30 December 2017 £000	31 December 2016 £000
At the beginning of period	3,308	(16,813)
Credit/(charge) to income statement	2,254	959
Credit/(charge) to other comprehensive income	(11,277)	19,162
<b>At end of period</b>	<b>(5,715)</b>	<b>3,308</b>

The provision of deferred taxation is made up to as follows:

	30 December 2017 £000	31 December 2016 £000
Accelerated capital allowances	(3,822)	(4,530)
Defined benefit plan (surplus)/deficit	(2,786)	7,684
Other timing differences	893	154
	<b>(5,715)</b>	<b>3,308</b>

24. Called up share capital

	30 December 2017 £000	31 December 2016 £000
<b>Shares classified as equity</b>		
<b>Authorised, allotted, called up and fully paid</b>		
502,001 (2016: 502,001) Ordinary shares of £1 each	<b>502</b>	<b>502</b>

There is a single class of ordinary shares. There is no restriction on the distribution of dividends and repayment of capital.



---

Mars Petcare UK

---

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017

---

**25. Capital commitments**

The Company had capital commitments as follows:

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Contracted for but not provided in these financial statements - tangible fixed assets	<b>2,652</b>	320
	<b>2,652</b>	320

---

**Mars Petcare UK**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**26. Pension and deferred cash promise commitments**

The Company operates a Defined Benefit Pension Scheme.

Mars Petcare UK participates, along with other employers in the Effem Holdings Limited Group, in a funded contributory, self administered, defined benefit pension plan. Assets are held in a separately administered fund.

The company operates unfunded, non-contributory, self administered, deferred cash promises and pension promises to certain associates who have joined the UK business.

The latest actuarial valuation of these schemes and promises were carried out at 31 December 2016 and have been updated to 30 December 2017 by independent qualified actuaries in accordance with FRS102.

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
<b>Reconciliation of present value of plan liabilities</b>		
At the beginning of the period	<b>1,502,340</b>	1,177,328
Current service cost	<b>16,679</b>	14,140
Interest cost	<b>37,536</b>	43,228
Actuarial losses	<b>42,798</b>	312,354
Benefits paid	<b>(51,711)</b>	(44,710)
<b>At the end of the period</b>	<b><u>1,547,642</u></b>	<b><u>1,502,340</u></b>

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
<b>Reconciliation of present value of plan assets</b>		
At the beginning of the period	<b>1,457,143</b>	1,244,830
Actuarial gains	<b>95,435</b>	171,351
Contributions	<b>26,248</b>	39,349
Benefits paid	<b>(51,665)</b>	(44,710)
Expected return on assets	<b>36,873</b>	46,323
<b>At the end of the period</b>	<b><u>1,564,034</u></b>	<b><u>1,457,143</u></b>

---

**Mars Petcare UK**

---

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**26. Pension and deferred cash promise commitments (continued)**

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
<b>Composition of plan assets:</b>		
Equities	<b>391,478</b>	545,554
Bonds	<b>511,908</b>	316,346
Property	<b>121,682</b>	185,494
Other	<b>538,966</b>	409,749
<b>Total plan assets</b>	<b>1,564,034</b>	1,457,143
Other plan assets include private equity, other alternatives and cash.		
	<b>31 December 2017 £000</b>	<b>31 December 2016 £000</b>
Fair value of plan assets	<b>1,564,034</b>	1,457,143
Present value of plan liabilities	<b>(1,547,642)</b>	(1,502,340)
<b>Net pension scheme asset/(liability)</b>	<b>16,392</b>	(45,197)

The net pension scheme asset of £16,392,000 is reflected in the statement of financial position in current assets under Pension asset due after more than one year of £42,710,000 and in provision for liabilities of £26,318,000. (2016 provision for liabilities: £45,197,000).

The closing plan/promise obligation includes an asset relating to a funded, self administered, defined benefit pension plan of £42,710,000 (2016 liability: £22,396,000), obligations relating to self administered deferred cash promises of £11,624,000 (2016: £7,012,000) and obligations relating to certain associates who have joined the UK business of £14,694,000 (2016: £15,789,000).

The expected return on plan assets is the discount rate times the asset value at the start of the period. The actual return on assets for the period ended 30 December 2017 was gain of £132,308,000 (2016: £217,675,000).

Mars Petcare UK

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017

26. Pension and deferred cash promise commitments (continued)

The amounts recognised in the income statement are as follows:

	30 December 2017 £000	31 December 2016 £000
<b>Operating income</b>		
Current service cost	16,679	14,140
<b>Total</b>	<b>16,679</b>	<b>14,140</b>
<b>Other finance (cost)/income</b>		
Expected return on pension plan/promise assets	36,873	46,323
Interest on pension plan/promise liabilities	(37,536)	(43,228)
	<b>(663)</b>	<b>3,095</b>
<b>Statement of comprehensive income (OCI)</b>		
Actual return less expected return on pension plan/promise assets	95,435	171,351
Experience gain arising on the scheme/promise liabilities	3,808	6,779
Change in assumptions underlying the present value of the scheme liabilities	(46,606)	(319,133)
<b>Actuarial gain/(loss) recognised in the OCI</b>	<b>52,637</b>	<b>(141,003)</b>
<b>Reconciliation of net pension asset/liabilities were as follows:</b>		
	30 December 2017 £000	31 December 2016 £000
Opening defined benefit (liability)/asset	(45,197)	67,502
Current service cost	(16,679)	(14,140)
Other net finance (expense)/income	(663)	3,095
Actuarial gain/(loss)	52,637	(141,003)
Contribution paid during the period	26,248	39,349
Benefit paid during the period	46	-
<b>Closing defined benefit asset/(liability)</b>	<b>16,392</b>	<b>(45,197)</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

**26. Pension and deferred cash promise commitments (continued)**

The U.K. defined benefit scheme where benefits are based on final salary is closed to new members. As a result, under the projected unit method the current service cost for the existing members of the scheme will increase as members approach retirement.

The principal assumptions used in the actuarial valuation were:

	<b>30 December 2017 %</b>	<b>31 December 2016 %</b>
Discount rate	<b>2.40</b>	2.50
Future salary increases	<b>3.70 - 7.00</b>	3.80 - 7.00
Future pension increases	<b>0.00 - 3.10</b>	0.00 - 3.10
Inflation assumption	<b>1.75 - 3.30</b>	1.75 - 3.30
Mortality rates		
Longevity at age 65 for current pensioners:		
Men	<b>23.0</b>	22.9
Women	<b>25.1</b>	25.0
Longevity at age 65 for future pensioners:		
Men	<b>23.4</b>	23.3
Women	<b>25.5</b>	25.4
Defined contribution pension plan		

The company operates a defined contribution plan, The Associates Savings Plan ("ASP"). The ASP pension charge for the period was £833,000 (2016: £960,000).

**27. Commitments under operating leases.**

The Company had future minimum lease payments under non-cancellable operating leases as follows:

	<b>30 December 2017 £000</b>	<b>31 December 2016 £000</b>
Not later than 1 year	<b>12,208</b>	13,558
Later than 1 year and not later than 5 years	<b>10,373</b>	12,111
Later than 5 years	<b>171</b>	-
	<b>22,752</b>	25,669

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 DECEMBER 2017**

---

**28. Controlling party**

The company's ultimate parent undertaking and controlling party is Mars, Incorporated (the largest group to consolidate), a company incorporated in the State of Delaware, USA. The company's immediate parent undertaking is Mars Peterborough UK Holdings Limited, a company registered in England and Wales. The company is a wholly owned subsidiary of Wm Wrigley Jr. Company (the smallest group to consolidate) and is included in the consolidated financial statements of that company, a copy of which will be submitted alongside these financial statements and may be obtained from The Registrar of Companies, Companies Registration Office, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ. Wm. Wrigley Jr. Company's registered office is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States.

**WM. WRIGLEY JR. COMPANY**

**Consolidated Financial Statements**

**As of December 30, 2017 and December 31, 2016**

**Together with Report of Independent Auditors**

---

THESE PARTNERSHIP  
ACCOUNTS FORM  
PART OF THE ACCOUNTS  
OF COMPANY  
No. 6649984



## **Report of Independent Auditors**

To the Board of Directors of Wm. Wrigley Jr. Company:

We have audited the accompanying consolidated financial statements of Wm. Wrigley Jr. Company and its subsidiaries, which comprise the consolidated balance sheets as of December 30, 2017 and December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' investment and cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wm. Wrigley Jr. Company and its subsidiaries as of December 30, 2017, and December 31, 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.





***Emphasis of Matter***

As discussed in Notes 1 and 13 to the consolidated financial statements, the Company has entered into significant transactions with Mars, Incorporated and its subsidiaries, a related party. Our opinion is not modified with respect to this matter.

*PricewaterhouseCoopers LLP*

McLean, Virginia  
March 30, 2018

**WM. WRIGLEY JR. COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016**  
**USD in thousands**

	<b>2017</b>	<b>2016</b>
Net sales	\$ 21,435,007	\$ 21,184,231
Cost of products sold	12,055,758	11,701,973
	<u>9,379,249</u>	<u>9,482,258</u>
Selling, general and administrative expense	5,834,839	5,760,014
Amortization of intangible assets	653,704	651,581
Impairments of intangible assets	649,280	—
Income from operations	<u>2,241,426</u>	<u>3,070,663</u>
Interest expense	102,747	126,245
Interest expense with Mars, net	57	33,994
Investment income, net	(11,135)	(12,143)
Foreign exchange (income) loss, net	<u>(152,066)</u>	<u>203,217</u>
Income before provision for income taxes	2,301,823	2,719,350
Provision for income taxes	<u>337,201</u>	<u>870,149</u>
Net income	1,964,622	1,849,201
Net income attributable to the noncontrolling interests	361,606	431,157
Net income attributable to Wm. Wrigley Jr. Company	<u><u>\$ 1,603,016</u></u>	<u><u>\$ 1,418,044</u></u>

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

**WM. WRIGLEY JR. COMPANY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016**  
**USD in thousands**

	<u>2017</u>	<u>2016</u>
Net income	\$ 1,964,622	\$ 1,849,201
Other comprehensive (loss) income, net of tax		
Foreign currency translation adjustments	1,716,285	(51,896)
Net change in deferred hedges	(15,996)	(1,432)
Net unrealized change on investments	67,701	26,302
Net change in pension and other post retirement benefits	(181,033)	(447,663)
Total comprehensive income	<u>3,551,579</u>	<u>1,374,512</u>
Comprehensive income attributable to noncontrolling interests	<u>363,483</u>	<u>426,204</u>
Comprehensive income attributable to Wm. Wrigley Jr. Company	<u>\$ 3,188,096</u>	<u>\$ 948,308</u>

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

**WM. WRIGLEY JR. COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016**

USD in thousands

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,964,622	\$ 1,849,201
Adjustments to reconcile net income to net cash provided by operating activities, net of the impact of acquisitions:		
Depreciation and amortization	1,286,536	1,215,601
Impairments of intangible assets	649,280	—
Foreign exchange (gain) loss	(152,066)	203,217
Amortization of deferred financing costs	4,601	9,541
(Gains) losses on investments	(10,166)	484
Deferred income taxes	(667,742)	(14,865)
Changes in current assets and liabilities:		
Changes in accounts receivable	(55,256)	(111,759)
Changes in inventories	(165,503)	(111,452)
Changes in accounts payable and accrued liabilities	172,748	368,528
Changes in accrued interest	(4,944)	6,250
Changes in income taxes receivable and payable	123,274	(36,184)
Changes in other current assets and liabilities	(11,322)	49,469
Changes in other noncurrent investments	9,802	15,788
Changes in other noncurrent associate benefit assets and liabilities	(37,101)	(164,973)
Changes in other noncurrent assets and liabilities	53,961	(4,890)
Net cash provided by operating activities	<u>3,160,724</u>	<u>3,273,956</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(796,558)	(855,644)
Purchases of investments	(103,379)	(10,696)
Sales of investments	59,422	8,641
Property, plant and equipment disposal proceeds	20,641	34,136
Net investment hedge settlement payments	(2,022)	(1,289)
Acquisitions of businesses	(171,197)	(198,628)
Net cash used in investing activities	<u>(993,093)</u>	<u>(1,023,480)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings from Mars	221,000	85,000
Repayments to Mars	(354,456)	(200,000)
Repayments of long-term debt	(400,000)	(453,770)
Debt issuance costs	—	(1,900)
Dividends paid	(443,293)	(232,949)
Net transfers to Mars	(864,051)	(1,127,745)
Other financing activities	5,748	3,429
Net cash used in financing activities	<u>(1,835,052)</u>	<u>(1,927,935)</u>
Effect of exchange rate changes on cash and cash equivalents	101,001	(171,723)
Net increase in cash and cash equivalents	433,580	150,818
Cash and cash equivalents at beginning of year	1,837,873	1,687,055
Cash and cash equivalents at end of year	<u>\$ 2,271,453</u>	<u>\$ 1,837,873</u>

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

**WM. WRIGLEY JR. COMPANY**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 30, 2017 AND DECEMBER 31, 2016**  
**USD in thousands, except par value and shares**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,271,453	\$ 1,837,873
Investments	645,536	468,697
Due from Mars, net	4,353,245	5,519,889
Accounts receivable, net of allowances of \$27,275 and \$19,829	697,313	594,846
Inventories	1,792,141	1,521,271
Deferred income taxes	—	113,293
Income taxes receivable	113,604	101,724
Prepaid expenses and other	269,740	275,520
<b>Total current assets</b>	<b>10,143,032</b>	<b>10,433,113</b>
Property, plant and equipment, net	4,551,649	4,092,875
Prepaid associate benefit assets	234,960	2,413
Goodwill	12,349,286	11,537,771
Intangible assets, net	3,363,397	4,417,878
Deferred income taxes	338,855	497,219
Other assets	372,226	382,459
<b>TOTAL ASSETS</b>	<b>\$ 31,353,405</b>	<b>\$ 31,363,728</b>
<b>LIABILITIES</b>		
Due to banks	\$ 9,913	\$ 3,483
Borrowings from Mars	634,677	543,133
Current installments on long-term debt	550,728	399,877
Current portion of accrued associate benefits	23,053	19,567
Accounts payable and accrued liabilities	5,751,534	5,237,271
Accrued interest	12,521	17,062
Deferred income taxes	—	41,526
Income taxes payable	217,914	155,527
<b>Total current liabilities</b>	<b>7,200,340</b>	<b>6,417,446</b>
Long-term debt, less current installments	1,649,449	2,351,556
Long-term borrowings from Mars	1,106,250	1,331,250
Accrued associate benefits	2,936,321	2,698,988
Deferred income taxes	452,863	1,335,122
Other liabilities	763,301	525,881
<b>TOTAL LIABILITIES</b>	<b>14,108,524</b>	<b>14,660,243</b>
<b>STOCKHOLDERS' INVESTMENT</b>		
Preferred stock, par value \$0.01 per share; none authorized, issued and outstanding (96,500 in 2016)	—	1,041,696
Common stock, par value \$0.01 per share; 1,000,000 shares authorized issued and outstanding; (903,500 issued and outstanding in 2016)	10	9
Paid-in capital	16,703,990	14,030,197
Retained earnings	1,429,938	2,564,736
Accumulated other comprehensive loss	(5,144,570)	(6,729,650)
<b>TOTAL WM. WRIGLEY JR. COMPANY STOCKHOLDERS' INVESTMENT</b>	<b>12,989,368</b>	<b>10,906,988</b>
Noncontrolling interests - other	4,255,513	5,796,497
<b>TOTAL STOCKHOLDERS' INVESTMENT</b>	<b>17,244,881</b>	<b>16,703,485</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>	<b>\$ 31,353,405</b>	<b>\$ 31,363,728</b>

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

**WM. WRIGLEY JR. COMPANY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' INVESTMENT**  
**FOR THE YEARS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016**

USD in thousands

	Preferred stock	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total Wm. Wrigley Jr. Company stockholders' investment	Noncontrolling interests	Total stockholders' investment
Balance, January 2, 2016	\$ 987,833	\$ 9	\$ 13,212,472	\$ 2,351,642	\$ (6,259,914)	\$ 10,292,042	\$ 5,370,293	\$ 15,662,335
Comprehensive income (loss)	—	—	—	1,418,044	(469,736)	948,308	426,204	1,374,512
Accrued preferred stock dividends	53,863	—	—	(53,863)	—	—	—	—
Affiliate investment	—	—	817,725	—	—	817,725	—	817,725
Affiliate dividends	—	—	—	(1,151,087)	—	(1,151,087)	—	(1,151,087)
Balance, December 31, 2016	\$ 1,041,696	\$ 9	\$ 14,030,197	\$ 2,564,736	\$ (6,729,650)	\$ 10,906,988	\$ 5,796,497	\$ 16,703,485
Comprehensive income	—	—	—	1,603,016	1,585,080	3,188,096	363,483	3,551,579
Accrued preferred stock dividends	31,219	—	—	(31,219)	—	—	—	—
Preferred stock conversion	(1,072,915)	1	1,072,914	—	—	—	—	—
Affiliate investment	—	—	1,600,879	—	—	1,600,879	320,645	1,921,524
Affiliate dividends	—	—	—	(2,706,595)	—	(2,706,595)	(2,261,912)	(4,968,507)
Noncontrolling interest of acquired entity	—	—	—	—	—	—	36,800	36,800
Balance, December 30, 2017	\$ —	\$ 10	\$ 16,703,990	\$ 1,429,938	\$ (5,144,570)	\$ 12,989,368	\$ 4,255,513	\$ 17,244,881

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

WM. WRIGLEY JR. COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 30, 2017 AND DECEMBER 31, 2016  
(USD in thousands, unless otherwise noted)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Wm. Wrigley Jr. Company ("Wrigley"), a subsidiary of Mars, Incorporated ("Mars"), and subsidiaries (collectively, the "Company"). For the consolidated subsidiaries in which the Company's ownership is less than 100 percent, the minority stockholders' interests are shown as noncontrolling interests ("NCI"). Investments in affiliates over which the Company has significant influence but not a controlling interest are carried on the equity basis. Investments in affiliates over which the Company does not have significant influence are accounted for by the cost method or as available-for-sale securities. All intercompany accounts and transactions are eliminated in consolidation.

The Company's fiscal year consists of 52 or 53 weeks. The fiscal years ended December 30, 2017 and December 31, 2016 are 52 weeks.

Reorganization and change in presentation

During the fiscal year ended December 30, 2017, Mars contributed certain subsidiaries to the Company as part of a global reorganization. The contributions were transfers of entities under common control and all periods presented reflect the financial position, results of operations and cash flows of these entities as if they had been contributed to the Company as of October 6, 2008, the date Mars acquired the Company. This change in presentation increased stockholders' investment by \$6,812 million at January 2, 2016. The consolidated financial statements do not give effect to contributions to the Company subsequent to December 30, 2017.

As part of this reorganization, Wrigley and Mars contributed certain subsidiaries to Mars Chocolate North America ("MCNA"). Wrigley has a 55% equity ownership in post-contribution MCNA and Mars has 45% noncontrolling interest.

During the years ended December 30, 2017 and December 31, 2016, Wrigley made non-cash dividends to Mars of \$4,525 million and \$918 million, respectively. These non-cash dividends are included in the Consolidated Statement of Changes in Stockholders Investment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of sales, costs and expenses, assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

## Recent Accounting Pronouncements

### *Standards Effective in the Current Year*

In May 2015, the FASB issued an updated accounting standard to address the diversity in practice related to how certain investments measured at net asset value ("NAV") with redemption dates in the future are categorized within the fair value hierarchy. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share as a practical expedient. Prior year amounts have been reclassified to conform to the current year presentation. See Note 4, Pension and Other Postretirement Plans.

In November 2015, the FASB issued an amended accounting standard on classification of deferred taxes. This standard requires deferred tax assets and liabilities, along with any related valuation allowance, to be classified as noncurrent on the balance sheet, and eliminates the requirement under prior guidance to present separately current and noncurrent deferred tax assets and liabilities on the balance sheet. The amendment, which may be applied either prospectively or retrospectively, is effective for fiscal 2018, with early adoption permitted. The Company early adopted the standard in 2017 with a prospective approach, as such comparative balances in 2016 were not retrospectively adjusted. See Note 6, Income Taxes.

In January 2016, the FASB amended accounting standards requiring all equity investments to be measured at fair value with changes in fair value recognized through net income except for investments accounted for under the equity method of accounting or those investments that result in consolidation of the investee. The amendments allow cost method investments to be remeasured at fair value either upon occurrence of an observable price change or upon identification of an impairment. The standard is effective for the Company at the end of fiscal year 2019 and for subsequent interim periods. Early adoption is permitted as of fiscal year 2018 including the interim periods of fiscal year 2018. The Company is evaluating the impact of this standard on the consolidated financial statements. One provision of the standard allows nonpublic entities to discontinue disclosure of the fair value of financial instruments accounted for at amortized cost and this provision may be early adopted in fiscal year 2017. The Company early adopted this provision in fiscal year 2017.

### *Standards Effective in Future Years*

The Company is evaluating the impact on the consolidated financial statements for the following standards effective in future years:

In May 2014, the FASB issued a new accounting standard on revenue recognition. The standard requires an entity to recognize revenue for the transfer of goods or services to customers for an amount the entity expects to be entitled to receive in exchange for those goods or services. The standard is effective for non-public entities beginning in 2019.

In February 2016, the FASB issued new accounting guidance which requires lessees to recognize virtually all of their leases on the balance sheet by recording right-of-use assets and lease liabilities. Under the new guidance, there will be a dual model for income statement recognition that results in either straight-line or front-loaded expense recognition, depending on the type of lease. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. This guidance is effective for the Company in fiscal year 2020 and all subsequent interim periods with early adoption permitted.



In June 2016, the FASB issued a new credit loss standard that changes the impairment model for most financial assets and certain other instruments. Under the new guidance, entities are required to use a new forward-looking “expected loss” model which will result in earlier measurement of credit losses than under the current incurred loss model. The standard which is effective for the Company at the end of fiscal year 2021, with early adoption permitted as of fiscal year 2019.

In August 2016, the FASB issued a new cash flow classification standard intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This standard is effective for the Company in fiscal year 2019 and all subsequent interim periods. The guidance requires application using a retroactive transition method. Early adoption is permitted, provided that all of the amendments are adopted in the same period.

In October 2016, the FASB issued a new standard related to the income tax consequences of intra-entity transfers of assets other than inventory intended to reduce diversity in practice and to appropriately present the economics of intra-entity asset transfers. Current guidance prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. However, the new standard states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This standard is effective for the Company in fiscal year 2019 and all subsequent interim periods with early adoption permitted. Entities are required to apply the update on a modified retroactive basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.

In November 2016, the FASB issued a new cash flow standard intended to reduce diversity in practice in how restricted cash has been classified and presented in the statement of cash flows. The new guidance requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard is effective for the Company in fiscal year 2019 and all subsequent interim periods. The guidance should be applied using a retrospective transition method to each period presented with early adoption permitted.

In March 2017, the FASB issued guidance updating the presentation of net periodic pension and postretirement benefit costs. This update requires that the service cost component be disaggregated from the other components of net periodic benefit costs. In addition, the update requires that only service cost can be included as an associate cost within the operating section of the income statement and only the service cost component will be eligible for capitalization. The guidance will be applied retrospectively, with a prospective approach taken for capitalization of service costs and is effective for the Company in fiscal year 2019.

In August 2017, the FASB issued guidance improving financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities for all entities that apply hedge accounting. The guidance (i) more closely aligns the results of cash flow and fair value hedge accounting with risk management activities through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements, (ii) expands hedge accounting for both nonfinancial and financial risk components, and (iii) refines the measurement of hedge results to better reflect an entity’s hedging strategies. The amendment aligns the timing of recognition of hedge results with the earnings effect of the hedged item for cash flow and net investment hedges by including the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is presented. This guidance will be effective for the Company in fiscal year 2020, with early adoption permitted for any interim period.

In February 2018, the FASB issued updated guidance related to reporting comprehensive income. The amendments in the update allow for a one-time reclassification from accumulated other comprehensive loss to retained earnings for stranded tax effects as a result from the enactment of the Tax Cuts and Jobs Act of 2017. The updated guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for reporting periods for which financial statements have not yet been issued. The updated guidance should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the 2017 Tax Act is recognized. The Company has not yet determined the timing of adoption or estimated the effect on the Company's financial statements.

#### Foreign Currency Translation

The Company uses the current rate method of translating foreign currency financial statements, except for countries deemed to be highly inflationary for which a combination of current and historical exchange rates are used and any translation adjustments are included in net income. Gains and losses on translation of equity interests in subsidiaries outside the United States of America ("U.S.") and intercompany notes of a long-term investment nature are reported within accumulated other comprehensive loss, net of tax, within stockholders' investment in the Consolidated Balance Sheets. The Company does not have any material exposure to highly inflationary economies.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, interest and non-interest bearing bank deposits and securities with original maturities of three months or less.

#### Cash Flows

Cash payments for interest were \$84 million and \$133 million for the years ended December 30, 2017, and December 31, 2016, respectively. Net cash payments for income taxes were \$657 million and \$689 million for the years ended December 30, 2017 and December 31, 2016, respectively.

The Company engaged in significant non-cash financing activities mainly with related parties. These non-cash transactions are described in Note 1 "Reorganization and change in presentation" and Note 5 "Long-term debt".

#### Revenue Recognition

Revenue is recognized when the earnings process is complete. Generally, this occurs when products are shipped in accordance with terms of agreements, title and risk of loss transfer to customers, collection is probable, and pricing is fixed or determinable. The Company recognizes allowances for estimated returns, discounts, promotions, and incentives in the period when the sale is recognized. The allowances are estimated based on historical experience and other factors and are included within net sales in the Consolidated Statements of Income.

During the years ended December 30, 2017 and December 31, 2016, the Company's largest customer accounted for 10 percent of net sales. No other customer accounted for 10 percent or more of net sales.

### Investments

Investments in debt and equity securities are generally classified as available-for-sale and are reported at fair value, with unrealized gains and losses excluded from income and included as a separate component of accumulated other comprehensive loss net of deferred income taxes. Realized gains and losses on the sales of these securities are computed based on the specific identification method and are included in income.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Company considers factors affecting the issuer, factors affecting the industry the issuer operates within, and general debt and equity market trends. The Company considers the length of time an investment's fair value has been below carrying value, the severity of the decline, the near term prospects for recovery to cost, and the Company's intent and ability to hold the investment until maturity or market recovery is realized. If and when a determination is made that a decline in fair value below the cost basis is other-than-temporary, the related investment is written down to its estimated fair value through a charge to earnings.

### Accounts Receivable

Trade accounts receivable are recorded at net realizable value. This value includes an allowance for estimated uncollectible accounts to reflect any loss anticipated on the trade accounts receivable balances. The allowance for doubtful accounts represents the Company's estimate of the amount of probable credit losses in existing accounts receivable, as determined from a review of past due balances and other relevant information.

### Inventories

Inventories are stated at the lower of cost or market. The Company uses the first-in, first-out method in determining the majority of its inventory costs. The last-in, first out ("LIFO") method is used in determining inventory costs in substantially all U.S. operating units. Approximately 38% and 41% of the Company's inventory was accounted for using the LIFO method as of December 30, 2017 and December 31, 2016, respectively. As of December 30, 2017 and December 31, 2016, the Consolidated Balance Sheets include \$115 million and \$117 million of inventory in other assets that were accounted for using LIFO. If replacement cost had been used, inventories would have been \$69 million and \$97 million higher than reported as of December 30, 2017 and December 31, 2016, respectively.

Inventories consist of the following as of December 30, 2017 and December 31, 2016:

	2017	2016
Finished goods	\$ 1,266,631	\$ 1,032,782
Raw materials	525,510	488,489
	<u>\$ 1,792,141</u>	<u>\$ 1,521,271</u>

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Routine repair and maintenance costs are expensed as incurred. Depreciation expense during the years ended December 30, 2017 and December 31, 2016, was \$609 million and \$545 million, respectively.

Depreciation is generally provided on the straight-line method over the estimated useful lives of the related assets for financial reporting purposes. The estimated useful lives of depreciable property, plant and equipment generally are as follows:

Category	Years
Buildings	20
Building improvements and fixtures	12
Machinery and equipment	10
Office equipment	6
Computer equipment	3

#### Impairment Evaluation of Long-Lived Assets

The Company reviews property, plant and equipment and finite-lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. This evaluation includes comparing future undiscounted cash flows relating to the assets, or the appropriate grouping of assets, over the remaining life of such assets to the net book value of those assets. If the projected cash flows are less than the net book value, an impairment loss is measured based on the excess of the net book value over the estimated fair value of the asset.

#### Intangible Assets

The Company reviews intangible assets with indefinite lives for impairment annually during the fourth quarter and whenever events or changes in circumstances occur which would indicate the carrying value of its assets may not be fully recoverable to determine if the current value of intangible assets is impaired. The Company is given the option to make a qualitative evaluation of intangible asset impairment to determine whether it is necessary to calculate the fair value of the intangible assets. The Company makes its qualitative evaluation of its intangible assets by considering, among other things, the overall macroeconomic conditions, industry and market considerations, overall financial performance and other relevant reporting unit specific events. If the Company determines, based on the qualitative evaluation that it is more likely than not that the fair value is less than its carrying amount, the Company would then perform a quantitative analysis. However, if the Company concludes otherwise, the intangible asset is not considered impaired. The Company performs the quantitative analysis by comparing the fair value of the intangible asset to its carrying value. If the intangible asset's fair value exceeds its carrying value, it is not impaired. If the intangible asset's carrying value exceeds its fair value, an impairment loss is recognized to reduce the intangible asset to its fair value.

For finite-lived intangible assets, amortization is generally provided on the straight-line method over the estimated useful lives of the related assets for financial reporting purposes. The estimated useful life of finite lived intangibles assets are as follows:

Category	Years
Trademarks	14 to 30
Customer relationships	10 to 14
Patents and technology	7 to 9
Other intangibles (c.g., agreements)	3 to 9

### Goodwill

The Company assesses its goodwill for impairment annually during the fourth quarter and whenever events or changes in circumstances occur indicating the carrying value of its net assets may not be fully recoverable. The Company is given the option to make a qualitative evaluation of goodwill impairment to determine whether it is necessary to calculate the fair value of its reporting units. The Company makes its qualitative evaluation of its goodwill by considering, among other things, the overall macroeconomic conditions, industry and market considerations, overall financial performance and other relevant reporting unit specific events. Based on the qualitative evaluation, if the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company would then perform the two-step impairment test. However, if the Company concludes otherwise, goodwill is not considered impaired.

The first step of the two-step impairment test compares the fair value of each reporting unit with its carrying value. If the fair value of a reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not considered impaired and no further testing is required. If the carrying value of the net assets assigned to that reporting unit exceeds the fair value of the reporting unit, the Company must perform the second step of the impairment test to determine the implied fair value of the reporting unit's goodwill. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, then an impairment loss is recorded to write down the goodwill to its implied fair value. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include projected revenue growth rates, operating margins, discount rates, capital expenditures and related depreciation to calculate estimated cash flows. In addition, certain judgments and assumptions are made in allocating shared assets and liabilities to determine the carrying values of reporting units.

### Pension Benefit Costs

The Company recognizes gains and losses resulting from the settlement of pension obligations in certain defined benefit pension plans as they occur. In addition, when a lump sum payment is made for certain defined benefit pension plans, all deferred gains and losses are immediately recognized.

In a fiscal year-end that does not coincide with a month-end, the Company measures the assets and obligations of the defined benefit plan using the month-end that is closest to the entity's fiscal year-end.

### Software Costs

The Company capitalizes certain costs incurred in the development of internal-use software. Such costs include external direct costs of materials and licenses, payroll and payroll-related costs for associates directly involved in the development of internal-use software, and related interest costs. These capitalized costs are included in other assets in the Consolidated Balance Sheets and are amortized over useful lives of 3 to 5 years on a straight-line basis. Amortization of capitalized software costs is included in selling, general and administrative expense in the Consolidated Statements of Income.

As of December 30, 2017 and December 31, 2016, other assets included capitalized costs as follows:

	2017	2016
Capitalized software	\$ 228,230	\$ 190,150
Less: accumulated amortization	(177,079)	(146,506)
	<u>\$ 51,151</u>	<u>\$ 43,644</u>

Amortization expense associated with capitalized software during the years ended December 30, 2017 and December 31, 2016 was \$23 million and \$19 million, respectively.

#### Advertising Costs

Advertising costs are expensed in the period incurred. Advertising costs of \$1,130 million and \$1,255 million for the years ended December 30, 2017 and December 31, 2016, respectively, were included in selling, general and administrative expense.

#### Research and Development

Research and development costs are expensed as incurred and include the costs to design, develop, test, deploy, and enhance the Company's products. Research and development costs of \$367 million and \$366 million for the years ended December 30, 2017 and December 31, 2016, respectively, were included in selling, general and administrative expense.

#### Distribution Costs

Distribution costs, including shipping and handling costs, are classified as cost of products sold.

#### Derivatives

All derivative financial instruments are reported on the Consolidated Balance Sheets at fair value. Changes in fair value are recognized either in net income or other comprehensive income, depending on whether the derivative is designated as a hedge, the nature of the underlying exposure being hedged, and how effective the derivative is at offsetting price movements in the underlying exposure. Derivatives are used solely for risk management purposes and are either designated as hedges or used as economic hedges. See Note 7, Financial instruments.

The Company's operations give rise to exposure to market risks. Generally, derivative financial instruments are utilized to reduce those risks. The Company enters into forward exchange contracts and options for the purchase and sale of foreign currencies as part of the management of its foreign currency exposures. These exposures arise primarily from anticipated purchases of certain raw materials, sales of the Company's products in foreign currencies, debt and interest payments, investments in foreign subsidiaries and intercompany financing activities.

The Company was exposed to variability in interest rates associated with debt in prior years. The Company entered into interest rate swaps and caps to manage interest rate exposure by economically converting a portion of its variable-rate debt to fixed-rate debt.

The Company, in the normal course of production, uses large quantities of cocoa, sugar, grains and other commodities. Prices for these commodities fluctuate due to changes in the supply and demand for the commodities and changes in the rates of exchange for the currencies in which they are traded. To hedge price risk associated with its anticipated purchases of these commodities, the Company buys and sells futures contracts for the commodities and forward contracts and options for the related currencies.

Fair values of derivative assets and liabilities not traded either on exchanges or liquid, over-the-counter markets are determined by quantitative models primarily based on market observable inputs, including market interest rate curves and referenced credit spreads. Most market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party

pricing services. The Company considers the need to adjust the fair value of derivative assets and liabilities for counterparty credit quality and non-performance risk.

#### Income Taxes

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns, and are determined annually based on the difference between financial statement and tax bases of assets and liabilities using enacted tax laws and rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized. The Company provides U.S. federal income taxes for earnings and certain other estimated future cash amounts of non-U.S. subsidiaries that are expected to be remitted in the foreseeable future. The Company has not recorded deferred taxes related to the portion of its ownership in foreign subsidiaries which it considers permanently reinvested. The amount of this unrecognized U.S. deferred tax liability cannot be practicably determined.

Global intangible low tax income ("GILTI") provisions in the U.S. tax code impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. Effective 2017, the Company has elected to treat any potential GILTI inclusions as a period cost.

#### Fair Value

Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Market or observable inputs are the most persuasive source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into the following three levels, in order of reliability, as described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2: Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; quoted prices for similar assets or liabilities; and model-derived valuations whose inputs are observable or whose significant value drivers are observable;

Level 3: Significant inputs to the valuation model are unobservable.

Significant transfers between levels are recognized at the end of the reporting period. The carrying amounts of short-term financial instruments, including cash and cash equivalents, receivables, and certain other liabilities are reasonable estimates of fair value due to the short-term nature of these instruments.

#### Loans due from and payable to related parties

The Company has various notes payable to and receivable from related parties under common control with its parent. Mars generally has the unilateral ability to modify its global intercompany capital structure, which includes modifying intercompany note agreements to accelerate payment. As the

Company's related party notes may be modified at Mars' discretion, these positions are presented on a net basis and classified as current in the Consolidated Balance Sheets unless otherwise disclosed.

## (2) ACQUISITIONS

### *Preferred Brands International Inc.*

On November 2, 2017, the Company purchased 100% of Preferred Brands International Inc. Preferred Brands International Inc. and its consolidated subsidiaries ("PBI") operate as a fully integrated manufacturer and marketer of all-natural, ready-to-heat Indian and Asian food products sold primarily under the Tasty Bite brand. PBI's portfolio includes a wide range of vegetarian offerings, including Indian and Asian entrees, spice and simmer meal kits, and organic rice and lentils. While the majority of sales are generated in the U.S. and Canada, PBI also manufactures products that are sold through retailers in the U.K. and Australia and to food service providers in India. PBI owns 74.2% of Tasty Bite Eatables Limited India ("TBEL"). TBEL manufactures all PBI products and has third party sales in Asia

The Company acquired PBI for \$171 million in cash (net of cash acquired of \$3 million). The Company incurred acquisition-related costs of \$12 million which were included in selling, general and administrative expenses in the Consolidated Statement of Income.

The earnings of PBI have been included in the consolidated financial statements of the Company beginning November 2, 2017. The excess of the purchase price over the fair value of the tangible net assets and intangible assets acquired was recognized as goodwill and is attributable to the growth that the Company expects to realize from this acquisition. Goodwill generated from the acquisition is not deductible for tax purposes.

The allocation of the purchase price is preliminary pending the finalization of the fair value of the acquired net assets and liabilities assumed.

As of the acquisition date, the purchase price assigned to the acquired assets and assumed liabilities is summarized as follows:

Cash acquired	\$ 2,864
Other current and non-current assets	40,250
Property, plant and equipment	12,339
Intangible assets:	
Trademarks - finite-lived	19,000
Customer relationships	116,000
Other intangible assets	2,500
Goodwill	97,466
Total assets acquired	<u>290,419</u>
Total current liabilities assumed	(18,884)
Total long-term liabilities assumed	(60,674)
Net assets acquired	<u>210,861</u>
Noncontrolling interests	(36,800)
Company acquired interests	<u>\$ 174,061</u>

The estimated useful lives of the identifiable finite-lived intangible assets from the acquisition include the following: trademarks, 14 years; customer relationships, 13-14 years; other intangible assets, 3 years.



### *Turin*

On April 19, 2016, the Company acquired Turin Holdings, S.A.P.I. de C.V. ("Turin"), a premium chocolate company in Mexico. Founded in 1928, Turin manufactures and distributes high-quality chocolate products. This strategic acquisition allows the Company to create scale and distribution efficiencies through combining Turin with its existing operations in Mexico. This allows the Company to leverage Turin's strong portfolio of iconic local brands primarily known around Mexico City and increase distribution throughout the rest of Mexico. The Company expects to increase the export of Turin's liquor-filled chocolates to have broader domestic and international presence

The Company funded the purchase price of \$191 million with cash on hand (net of cash acquired of \$1 million). The cash payment included \$18 million payment to the escrow agent's account and withholding tax of \$13 million. The escrow account was released to the seller in 2017. The costs associated with the acquisition of \$5 million are included in the selling, general and administrative expense in the Consolidated Statements of Income.

The earnings of the Turin business have been included in the consolidated financial statements of the Company beginning April 19, 2016. The excess of the purchase price over the fair value of the tangible net assets and intangible assets acquired was recorded as goodwill. The goodwill recognized is attributable to the growth that the Company expects to realize from this acquisition. Goodwill generated from the acquisition is deductible for tax purposes.

The final purchase price and the resulting impact on the Consolidated Balance Sheet for the acquisition are as follows:

Cash acquired	\$ 1,128
Other current assets	29,497
Property, plant, and equipment	30,486
Other non-current assets	3,482
Intangible assets:	
Trademarks - finite-lived	49,371
Developed technology	4,304
Customer relationships	11,563
Goodwill	105,861
Total assets acquired	<u>235,692</u>
Total current liabilities assumed	(17,264)
Total long-term liabilities assumed	(26,913)
Net assets acquired	<u><u>\$ 191,515</u></u>

The estimated useful lives of the identifiable finite-lived intangible assets from the acquisition include the following: trademarks, 20 years; developed technology, 8 years and customer relationships 10-12 years.

### *Ecuadorian Cocoa Farm*

On April 13, 2016, the Company acquired a cocoa farm located in Ecuador. The farm grows and harvests high quality cocoa beans that are sold in the global market. The farm began its operations in 1995 and has 730 hectares of land, 485 of which are dedicated to cocoa crops. The purchase price was \$8 million.

(3) INVESTMENTS

The investments included on the Consolidated Balance Sheets were as follows:

	Location on the Consolidated Balance Sheet	2017	2016
Available-for-sale securities	Investments	\$ 645,536	\$468,697
Available-for-sale securities	Other assets	4,481	—
Total available-for-sale securities		650,017	468,697
Other long-term investments	Other assets	141,565	151,946
Total investments		\$ 791,582	\$ 620,643

Gross realized gains and losses on the sales of investments were \$10 million and \$0 million, respectively, for the year ended December 30, 2017 and \$0 million and \$0 million, respectively, for the year ended December 31, 2016, and have been included in investment income, net in the Consolidated Statements of Income. The Company recognized a gain of \$2 million and a gain \$0 million on corporate owned life insurance investments for the years ended December 30, 2017 and December 31, 2016, respectively.

As of December 30, 2017, there were no continuous unrealized losses greater than 12 months. The Company's investments in available-for-sale debt and equity securities were as follows:

	Cost basis	Unrealized gains	Unrealized losses	Recorded basis
Equity	\$ 375,541	\$ 162,082	\$ —	\$ 537,623
Corporate debt	88,573	1,239	—	89,812
Other	23,405	—	(823)	22,582
	<u>\$ 487,519</u>	<u>\$ 163,321</u>	<u>\$ (823)</u>	<u>\$ 650,017</u>

The investments with continuous unrealized losses for less than 12 months and their related fair values were as follows:

	Fair value	Unrealized losses
Other	\$ 18,101	\$ 823

As of December 30, 2017, the Company's investments in available-for-sale debt securities totaling \$108 million mature within 1 year.

As of December 31, 2016, the Company's investments in available-for-sale debt and equity securities were as follows:

	Cost basis	Unrealized gain	Unrealized losses	Recorded basis
Equity	\$ 372,644	\$ 95,694	\$ —	\$ 468,338
Corporate debt	359	—	—	359
	<u>\$ 373,003</u>	<u>\$ 95,694</u>	<u>\$ —</u>	<u>\$ 468,697</u>

As of December 31, 2016, there were no investments with continuous unrealized losses for less than or greater than 12 months.

Investments measured at fair value on a recurring basis were categorized as follows at December 30, 2017:

	Level 1	Level 2	Level 3	Total
Equity	\$ 195,766	\$ 445,934	\$ —	\$ 641,700
Corporate debt	—	89,812	—	89,812
Other	—	22,582	—	22,582
	<u>\$ 195,766</u>	<u>\$ 558,328</u>	<u>\$ —</u>	<u>\$ 754,094</u>

Investments measured at fair value on a recurring basis were categorized as follows at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Equity	\$ 183,016	\$ 396,571	\$ —	\$ 579,587
Corporate debt	—	359	—	359
	<u>\$ 183,016</u>	<u>\$ 396,930</u>	<u>\$ —</u>	<u>\$ 579,946</u>

Trusts holding deferred compensation investments totaling \$104 million and \$111 million are included in the tables above as Level 1 equity securities as of December 30, 2017 and December 31, 2016, respectively. The Company also accounted for \$104 million and \$111 million of associated liabilities related to deferred compensation held in trusts as Level 1 fair value liabilities recorded in other liabilities in its Consolidated Balance Sheets as of December 30, 2017 and December 31, 2016, respectively.

(4) PENSION AND OTHER POSTRETIREMENT PLANS

The benefit obligations and related assumptions, plan assets, and funded status of the Company's pension and other postretirement benefit plans as of December 30, 2017 were as follows:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Benefit obligation	\$ 1,094,835	\$ 12,432,904	\$ 113,446
Fair value of plan assets	787,133	10,170,305	83,091
Funded status	<u>\$ (307,702)</u>	<u>\$ (2,262,599)</u>	<u>\$ (30,355)</u>
Accumulated benefit obligation	<u>\$ 991,971</u>	<u>\$ 11,498,271</u>	<u>N/A</u>

The benefit obligations and related assumptions, plan assets, and funded status of the Company's pension and other postretirement benefit plans as of December 31, 2016 were as follows:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Benefit obligation	\$ 988,471	\$ 10,981,247	\$ 99,551
Fair value of plan assets	695,847	8,716,933	72,771
Funded status	<u>\$ (292,624)</u>	<u>\$ (2,264,314)</u>	<u>\$ (26,780)</u>
Accumulated benefit obligation	<u>\$ 894,087</u>	<u>\$ 10,133,252</u>	<u>N/A</u>

Pension and other postretirement benefit plans with obligations in excess of plan assets as of December 30, 2017 consist of the following:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Benefit obligation	\$ 1,094,835	\$ 4,531,282	\$ 113,446
Fair value of plan assets	787,133	2,033,804	83,091

Pension and other postretirement benefit plans with obligations in excess of plan assets as of December 31, 2016 consist of the following:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Benefit obligation	\$ 988,471	\$ 10,979,478	\$ 91,064
Fair value of plan assets	695,847	8,714,571	62,465

Pension and other postretirement benefit plans with accumulated benefit obligations in excess of plan assets as of December 30, 2017 consist of the following:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Accumulated benefit obligation	\$ 991,971	\$ 3,759,245	N/A
Fair value of plan assets	787,133	1,803,796	N/A

Weighted-average assumptions to determine benefit obligations as of December 30, 2017:

Discount rate	3.70%	2.36%	3.29%
Rate of increase in future compensation levels	3.75%	3.55%	N/A

Pension and other postretirement benefit plans with accumulated benefit obligations in excess of plan assets as of December 31, 2016 consist of the following:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Accumulated benefit obligation	\$ 894,087	\$ 3,128,165	N/A
Fair value of plan assets	695,847	1,447,492	N/A

Weighted-average assumptions to determine benefit obligations as of December 31, 2016:

Discount rate	4.20%	2.44%	3.61%
Rate of increase in future compensation levels	3.75%	3.61%	N/A

Net periodic benefit cost (income), and related assumptions, contributions and benefits paid for the year ended December 30, 2017 were as follows:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Net periodic benefit cost (income)	\$ 31,795	\$ 134,124	\$ (46,201)
Employer contributions	28,892	222,205	2,615
Participant contributions	—	237	2,073
Benefits paid	37,133	336,955	7,807

Weighted-average assumptions to determine net periodic benefit cost (income):

Discount rate	4.20%	2.44%	3.61%
Expected long-term rate of return on plan assets	7.50%	7.39%	6.00%
Rate of increase in future compensation levels	3.75%	3.61%	N/A

Net periodic benefit cost (income), and related assumptions, contributions and benefits paid for the year ended December 31, 2016 were as follows:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Net periodic benefit cost (income)	\$ 40,907	\$ 107,948	\$ (38,006)
Employer contributions	37,706	269,986	1,423
Participant contributions	—	270	1,543
Benefits paid	44,769	359,320	7,923

Weighted-average assumptions to determine net periodic benefit cost (income):

Discount rate	4.60%	3.26%	3.56%
Expected long-term rate of return on plan assets	7.75%	7.26%	6.00%
Rate of increase in future compensation levels	3.75%	3.54%	N/A

During the years ended December 30, 2017 and December 31, 2016, the Company's net periodic benefit cost included losses of \$1 million and \$7 million, respectively, related to the settlement and curtailment of certain non-U.S. pension plan obligations.

For measurement purposes related to the other postretirement benefit plans, a 6.0% and 5.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for the claims of all retirees in the years ended December 30, 2017 and December 31, 2016, respectively. The healthcare cost trend rates are projected to remain constant at 6.0% in 2018 and to decline ultimately to 5.0% by 2043.

Amounts recognized in the Consolidated Balance Sheet as of December 30, 2017 consisted of:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Prepaid associate benefit assets	\$ —	\$ 234,960	\$ —
Current portion of accrued associate benefits	2,311	18,092	2,557
Accrued associate benefits, noncurrent	305,391	2,479,386	27,798
Accumulated other comprehensive loss:			
Net (loss) gain	\$ (253,723)	\$ (3,869,856)	\$ 6,673
Net prior service (cost) credit	(4,504)	(12,583)	7,407
Deferred income tax	90,379	1,003,250	(4,928)
Noncontrolling interests	4,741	—	—
Accumulated other comprehensive (loss) income, net of tax attributable to Wrigley	<u>\$ (163,107)</u>	<u>\$ (2,879,189)</u>	<u>\$ 9,152</u>

Amounts recognized in the Consolidated Balance Sheet as of December 31, 2016 consisted of:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Prepaid associate benefit assets	\$ —	\$ 593	\$ 1,820
Current portion of accrued associate benefits	1,706	15,006	1,345
Accrued associate benefits, noncurrent	290,918	2,249,901	27,254
Accumulated other comprehensive loss:			
Net (loss) gain	\$ (261,202)	\$ (3,649,378)	\$ 2,486
Net prior service (cost) credit	(1,791)	(12,601)	7,658
Deferred income tax	92,048	969,478	(3,550)
Noncontrolling interests	6,618	—	—
Accumulated other comprehensive (loss) income, net of tax attributable to Wrigley	<u>\$ (164,327)</u>	<u>\$ (2,692,501)</u>	<u>\$ 6,594</u>

Amounts recognized in other comprehensive income for the year ended December 30, 2017 consisted of:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Reclassification to net income:			
Amortization of net loss (gain)	\$ 23,218	\$ 277,342	\$ (59)
Amortization of prior service cost (credit)	—	2,747	(1,880)
Other movements during the year:			
Net (loss) gain	\$ (18,856)	\$ (512,164)	\$ 4,246
Net prior service (cost) credit	(3,181)	(3,065)	1,629
Other comprehensive income (loss), gross	1,181	(235,140)	3,936
Deferred income tax	(1,669)	52,037	(1,378)
Noncontrolling interests	(1,877)	—	—
Other comprehensive income (loss), net of tax, attributable to Wrigley	<u>\$ (2,365)</u>	<u>\$ (183,103)</u>	<u>\$ 2,558</u>

Amounts recognized in other comprehensive income for the year ended December 31, 2016 consisted of:

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
Reclassification to net income:			
Amortization of net loss	\$ 17,454	\$ 185,734	\$ 613
Amortization of prior service cost (credit)	—	2,118	(106)
Other movements during the year:			
Net (loss) gain	\$ (84,536)	\$ (704,225)	\$ 405
Net prior service credit (cost)	233	(2,292)	6,781
Other comprehensive (loss) income, gross	(66,849)	(518,665)	7,693
Deferred income tax	23,398	109,453	(2,693)
Noncontrolling interests	4,953	—	—
Other comprehensive (loss) income, net of tax, attributable to Wrigley	<u>\$ (38,498)</u>	<u>\$ (409,212)</u>	<u>\$ 5,000</u>

The estimated net loss and prior service cost for U.S. pension plans that are expected to be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2018 are \$20 million and \$0, respectively. The estimated net loss and prior service cost for non-U.S. pension plans that are expected to be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2018 are \$268 million and \$2 million, respectively. The estimated net loss and prior service credit for other postretirement benefit plans that are expected to be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2018 are \$0 million and \$2 million, respectively.

#### Plan Assets

The Company's expected long-term rate of return on plan assets is determined by the respective plans' current asset allocation and estimated future long-term returns by asset class. Projections of overall expected long-term rate of return on assets assumptions are formulated through a comprehensive process incorporating economic and financial market theory, financial market history, and investment judgment.

Assumptions are predicated on, and consistent with, theory and are tested against history for reasonableness.

The risk inherent in each asset class is considered to determine an appropriate return expectation for each asset class. The higher the risk, the higher the risk premium required relative to risk-free assets. The investment return expectation for the portfolio is determined by weighting the expected returns for each asset class by the percentage representation of that asset class within the portfolio and summing the results.

Plan assets for the most significant postretirement benefits have similar investment policies. The Company's pension plans employ a long-term strategy driven by the expectation that equity ownership will outperform debt securities over the long-term and by the principle that a higher funded status warrants a closer match between assets and liabilities. Accordingly, the current target allocation for plan assets is generally 40%-50% in equity ownership, including publicly traded stock, real estate, and private equity, 40%-50% in public and private debt securities, and 5%-15% in hedge funds and other. For a number of plans this will change in favor of public debt securities once their funded status and/or the level of real interest rates have increased. Currently, most investments are implemented through actively managed strategies as opposed to passive index tracking approaches.

Investment risk is mitigated by maintaining appropriate diversification of investment assets and by restricting deviation from investment policy of predetermined risk control ranges. The plans are permitted to use derivative instruments for investment purposes for hedging underlying asset exposure and for rebalancing the asset allocation.

Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the total retirement plan assets.

U.S. pension plan assets measured at fair value as of December 30, 2017 were as follows:

Assets at fair value included in the fair value hierarchy

	Level 1	Level 2	Level 3 (g)	Total
Equity securities (a)	\$ 118,872	\$ —	\$ —	\$ 118,872
Government debt securities (b)	—	498	—	498
Corporate debt securities (b)	11,776	66,103	—	77,879
Cash and cash equivalents	27,322	—	—	27,322
	<u>\$ 157,970</u>	<u>\$ 66,601</u>	<u>\$ —</u>	<u>\$ 224,571</u>

Investments measured at NAV as a practical expedient for fair value

Equity securities (a)	\$ 325,094
Corporate debt securities (b)	81,286
Real estate (c)	17,285
Hedge funds (d)	136,752
Other (f)	2,145
Investments measured at NAV	<u>562,562</u>
Contributions after measurement date	—
U.S. pension plan assets at fair value as of December 30, 2017	<u>\$ 787,133</u>

The fair value descriptions for items (a) through (g) pertain to all plan asset fair value tables in Note 4 and are included after the final fair value table presented in Note 4.



U.S. pension plan assets measured at fair value as of December 31, 2016 were as follows:

Assets at fair value included in the fair value hierarchy

	Level 1	Level 2	Level 3 (g)	Total
Equity securities (a)	\$ 83,721	\$ —	\$ —	\$ 83,721
Government debt securities (b)	—	507	—	507
Corporate debt securities (b)	10,046	75,731	—	85,777
Cash and cash equivalents	41,305	—	—	41,305
	<u>\$ 135,072</u>	<u>\$ 76,238</u>	<u>\$ —</u>	<u>\$ 211,310</u>

Investments measured at NAV as a practical expedient for fair value

Equity securities (a)	\$ 271,930
Corporate debt securities (b)	75,855
Real estate (c)	3,324
Hedge funds (d)	133,253
Other (f)	175

Investments measured at NAV

484,537

U.S. pension plan assets at fair value as of December 31, 2016

\$ 695,847

Non-U.S. pension plan assets measured at fair value as of December 30, 2017 were as follows:

Assets at fair value included in the fair value hierarchy

	Level 1	Level 2	Level 3 (g)	Total
Equity securities (a)	\$ 1,179,249	\$ —	\$ —	\$ 1,179,249
Government debt securities (b)	107,607	948,038	—	1,055,645
Corporate debt securities (b)	181,271	1,353,429	—	1,534,700
Real Estate (c)	56,964	—	—	56,964
Hedge funds (d)	23,863	—	—	23,863
Private equity (e)	34,674	—	—	34,674
Cash and cash equivalents	489,402	—	—	489,402
Other (f)	32,469	52,588	12	85,069
	<u>\$ 2,105,499</u>	<u>\$ 2,354,055</u>	<u>\$ 12</u>	<u>\$ 4,459,566</u>

Investments measured at NAV as a practical expedient for fair value

Equity securities (a)	\$ 2,124,045
Government debt securities (b)	407,717
Corporate debt securities (b)	272,912
Real estate (c)	602,950
Hedge funds (d)	1,388,302
Private equity (e)	914,813

Investments measured at NAV

5,710,739

Contributions after measurement date

—

Non-U.S. pension plan assets at fair value as of December 30, 2017

\$ 10,170,305

Non-U.S. pension plan assets measured at fair value as of December 31, 2016 were as follows:

Assets at fair value included in the fair value hierarchy

	Level 1	Level 2	Level 3 (g)	Total
Equity securities (a)	\$ 1,036,513	\$ —	\$ —	\$ 1,036,513
Government debt securities (b)	124,831	444,124	—	568,955
Corporate debt securities (b)	127,801	1,002,907	—	1,130,708
Real estate (c)	40,395	—	—	40,395
Cash and cash equivalents	129,337	—	—	129,337
Other (f)	52,287	55,859	19	108,165
	<u>\$ 1,511,164</u>	<u>\$ 1,502,890</u>	<u>\$ 19</u>	<u>\$ 3,014,073</u>

Investments measured at NAV as a practical expedient for fair value

Equity securities (a)	\$ 2,474,617
Government debt securities (b)	122,967
Corporate debt securities (b)	394,742
Real estate (c)	826,467
Hedge funds (d)	1,014,910
Private equity (e)	869,157

Investments measured at NAV

5,702,860

Non-U.S. pension plan assets at fair value as of December 31, 2016

\$ 8,716,933

U.S. and non-U.S. other postretirement benefit plan assets measured at fair value as of December 30, 2017 were as follows:

Assets at fair value included in the fair value hierarchy

	Level 1	Level 2	Level 3 (g)	Total
Equity securities (a)	\$ 78,396	\$ —	\$ —	\$ 78,396
Government debt securities (b)	4,539	—	—	4,539
Cash and cash equivalents	156	—	—	156
	<u>\$ 83,091</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 83,091</u>

Investments measured at NAV

—

Contributions after measurement date

—

U.S. and non-U.S. other postretirement benefit plan assets at fair value as of December 30, 2017

\$ 83,091

U.S. and non-U.S. other postretirement benefit plan assets measured at fair value as of December 31, 2016 were as follows:

Assets at fair value included in the fair value hierarchy

	Level 1	Level 2	Level 3 (g)	Total
Equity securities (a)	\$ 72,334	\$ —	\$ —	\$ 72,334
Cash and cash equivalents	437	—	—	437
	<u>\$ 72,771</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 72,771</u>

Investments measured at NAV

—

U.S. and non-U.S. other postretirement benefit plan assets at fair value as of December 31, 2016

\$ 72,771

- (a) This class included in the fair value hierarchy table is principally actively managed and consists of U.S. and foreign large cap and small cap equities. For investments valued using NAV per share as a practical expedient, the class is principally comprised of commingled funds. Risk is comprised of both equity market risk and risk associated with active manager decisions.
- (b) This class included in the fair value hierarchy table is principally comprised of publicly traded sovereign debt, corporate credit, asset-backed securities and mortgage-backed securities. Most exposures are actively managed. Sovereign (government) debt is concentrated in both the developed and emerging markets. Sovereign debt exposure, from time to time, may be held in derivative form. Corporate credit is concentrated in investment-grade securities, with some exposure to high yield categories. Asset-backed and mortgage-backed securities are principally standard investment grade securities. The European Plans also hold small allocations to non-publicly traded credit instruments. For investments valued using NAV per share as a practical expedient, the class is principally comprised of fixed income securities and commingled funds.
- (c) For investments valued using NAV per share as a practical expedient, this class consists predominantly of directly held, income producing, properties in the U.K. and Netherlands and limited partnerships in the U.S. The U.K. and Netherlands properties are managed with a value orientation and a focus on cash generation. In the U.K. and Netherlands, concentrations currently exist within the retail sectors. The U.S. based investment funds are generally focused on value added strategies in a broad range of market sectors. The directly held properties in the U.K. and Netherlands are valued through independent third party appraisals. The values of the U.S. limited partnerships are primarily set by the fund managers and are determined taking the following inputs into consideration: cost, discounted cash flows, independent appraisals and market based comparable data. Investments included in the fair value hierarchy table are principally comprised of global property securities with quoted market prices.
- (d) This class consists of investments measured at fair value using the NAV per share practical expedient. The investments are comprised of broadly diversified strategies such as hedge funds and multi-asset strategy funds combined in portfolios structured to, under most circumstances, deliver low NAV volatility while delivering returns in line with fund objectives. Hedge fund NAVs are determined by the fund managers and are not publicly available while multi-asset strategy fund NAVs are often publicly available. NAVs are generally determined, depending on the underlying portfolio positions, through a combination of quoted market prices, market comparable data and model driven approaches. Investments included in the fair value hierarchy table are principally comprised of pooled funds with quoted market prices.
- (e) This class consists of investments measured at fair value using the NAV per share practical expedient. The investments are in limited partnerships with holdings in leveraged buy-outs ("LBOs"), venture capital and distressed debt. LBOs comprise the majority of investments at approximately 83% of holdings with the remaining 17% split between venture capital and distressed debt investments. While the portfolio of limited partnership investments is globally diversified, it is also primarily U.S. based. Partnership valuations are determined by the limited partnerships' general partners based on the valuation of underlying investments and are determined taking the following inputs into consideration: cost, discounted cash flows, and market based comparable data. Investments included in the fair value hierarchy table are principally comprised of pooled funds with quoted market prices.
- (f) This class is comprised primarily of derivative financial instruments, principally futures contracts, for risk management purposes and forward currency contracts. Forward and futures contracts are carried at fair value based on closing exchange quotations. For investments that are measured at fair value using the NAV per share practical expedient, this class is comprised primarily of commingled funds that focus on distressed credits and equities, recapitalization opportunities, and dislocations arising from specific events and forced-selling situations.
- (g) The activity for the Level 3 assets is not significant for all years presented.

### Multiemployer Pension Plans

Certain Mars subsidiaries that are not consolidated by Wrigley sponsor defined-benefit pension and other post-retirement benefit plans that are available to both Mars (non-Wrigley) and Wrigley associates, the "Shared Plans." The Company accounts for the Shared Plans as multiemployer plans, and accordingly, no assets or liabilities are recorded by the Company for the funded status of the Shared Plans. The related pension and other postretirement expenses of the Shared Plans were funded through related party transactions with Mars and are charged to the Company based primarily on the service cost of active participants for the years ended December 30, 2017 and December 31, 2016, respectively, to record its allocation of pension benefit costs related to the Shared Plans. During the years ended December 30, 2017 and December 31, 2016, the shared plans credit recorded by the Company were \$59 million and \$39 million, respectively.

### Cash Flows

Contributions by the Company to its funded defined benefit U.S. pension plans, non-U.S. pension plans, and other postretirement benefit plans for the next fiscal year are expected to be \$0, \$205 million, and \$0, respectively; however, actual contributions may be affected by pension asset and liability valuations during the year.

Defined benefit pension and other postretirement benefit plan payments expected in future years are as follows.

	Pension plans		Other postretirement benefit plans
	U.S.	Non-U.S.	
2018	\$ 36,811	\$ 359,705	\$ 8,049
2019	38,167	359,657	7,979
2020	39,520	373,087	8,320
2021	40,905	385,547	8,409
2022	42,288	398,972	8,471
2023-2027	239,122	2,236,902	41,823

### Defined Contribution Plans

The Company's contributions to defined contribution retirement plans are based on the compensation of covered associates. The Company's contributions, all of which were charged to expense, were \$80 million and \$77 million for the years ended December 30, 2017 and December 31, 2016, respectively.

(5) LONG-TERM DEBT

The long-term debt outstanding as of December 30, 2017 and December 31, 2016 was as follows:

	2017	2016
2017 Senior Unsecured Notes, fixed interest at 2.00%, interest payable semi-annually, maturing October 2017	\$ ----	\$ 400,000
2018 Senior Unsecured Notes, fixed interest at 2.40%, interest payable semi-annually, maturing October 2018	550,000	550,000
Guaranteed Senior Notes Payable in U S dollars through 2018 at 7.74% fixed interest	—	50,000
2019 Senior Unsecured Notes, fixed interest at 2.90%, interest payable semi-annually, maturing October 2019	750,000	750,000
2020 Senior Unsecured Notes, fixed interest at 3.38%, interest payable semi-annually, maturing October 2020	900,000	900,000
Guaranteed Senior Notes Payable in Euro through 2022 at 6.05%	--	110,812
Other	5,495	—
Less: unamortized discount and debt issuance costs	(5,318)	(9,379)
Total long-term debt	2,200,177	2,751,433
Less: current installments of long-term debt, net of unamortized discount	(550,728)	(399,877)
Long-term debt, less current installments	<u>\$ 1,649,449</u>	<u>\$ 2,351,556</u>

The Senior Unsecured Notes may be prepaid at the Company's option based upon contractually agreed upon premiums over the term of the notes.

The Senior Unsecured Notes include restrictions, subject to certain exceptions, generally including, but not limited to, incurring indebtedness and liens, engaging in mergers, and consolidating and selling assets.

Both series of Guaranteed Senior Notes Payable were canceled in exchange for a like amount of notes issued by Mars in July 2017, namely the €105 million aggregate principal amount of 6.0525% Series CC Senior Notes due 2022 and \$50 million aggregate principal amount of 7.74% Series DD Senior Notes due 2018.

### Debt Maturities and Capitalized Interest

As of December 30, 2017, the Company's long term debt maturities during the next five years were as follows:

2018	\$ 550,728
2019	750,638
2020	901,132
2021	967
2022	665
Thereafter	<u>1,365</u>
	2,205,495
Unamortized discount and debt issuance costs	<u>(5,318)</u>
Total long-term debt	<u><u>\$ 2,200,177</u></u>

For the years ended December 30, 2017 and December 31, 2016, the Company incurred interest expense of \$12 million and \$12 million, respectively, which was capitalized as a component of property, plant and equipment in its Consolidated Balance Sheets.

### (6) INCOME TAXES

The Company's results are included in the Mars consolidated U.S. tax return. The U.S. tax sharing agreement currently in place with Mars requires the Company to present the tax accounts as if the Company was a separate tax filing entity. Mars may utilize certain tax benefits in their consolidated tax return currently and will reimburse the Company at a future date when those tax benefits could have been utilized by the Company on a standalone basis.

Deferred income tax assets and liabilities arise primarily due to different methods for recording depreciation and amortization for tax and financial reporting purposes, the timing of the recognition of earnings of foreign subsidiaries, associate benefits and other accrued amounts. Valuation allowances are included in the accompanying Consolidated Balance Sheets with the related deferred tax assets. Deferred tax assets have been established for domestic and foreign net operating loss carryforwards and other credits, and valuation allowances have been provided for those losses and credits that are not expected to be realized. Benefits of net operating loss carryforwards and other tax credit carryforwards of \$191 million have various expiration dates through the year 2037, and \$89 million have no expiration dates.

As of December 30, 2017 and December 31, 2016, the components of deferred income tax assets and liabilities were as follows:

	2017	2016
Deferred tax assets	\$ 519,518	\$ 708,498
Valuation allowance	<u>(180,663)</u>	<u>(97,986)</u>
Net deferred tax assets	338,855	610,512
Deferred tax liabilities	\$ 452,863	\$ 1,376,648
Deferred tax liabilities, net	<u><u>\$ 114,008</u></u>	<u><u>\$ 766,136</u></u>

As of December 30, 2017 and December 31, 2016, the components of the provision for income taxes were as follows:

	2017	2016
Current tax provision	\$1,004,943	\$ 885,014
Deferred tax provision	(667,742)	(14,865)
Total tax provision	<u>\$ 337,201</u>	<u>\$ 870,149</u>

The effective tax rates are 14.6% and 32.0% for 2017 and 2016, respectively. In general, the effective tax rate varies from the U.S. tax rate of 35% primarily due to the impacts of U.S. tax reform, exchange rate fluctuations on previously taxed income and intercompany loans, non-controlling interest, income attributable to domestic production activities, and state taxes.

Reserves for uncertain tax positions have been classified as other non-current liabilities in the Consolidated Balance Sheet unless expected to be paid within one year. The net interest expense and penalties of \$11 million have been included in the Consolidated Statement of Income for the year ended December 30, 2017. The net interest expense and penalties of \$5 million have been included in the Consolidated Statement of Income for the year ended December 31, 2016. Penalties related to uncertain tax positions are recognized as a component of the provision for income taxes and interest is recognized as a component of interest expense. Total accrued interest and penalties of \$93 million and \$78 million have been included in non-current other liabilities in the Consolidated Balance Sheets as of December 30, 2017 and December 31, 2016, respectively.

The Company is potentially subject to income tax audits in numerous jurisdictions in the U.S. and internationally until the applicable statutes of limitations expire. Tax audits by their nature are often complex and can require several years to complete. Years still open to examination by tax authorities in major jurisdictions include Canada (2010 onward), China (2006 onward), Russia (2014 onward), Mexico (2009 onward), the U.K. (2016 onward), and the U.S. (2013 onward).

On December 22, 2017, the U.S. Congress enacted the Tax Cuts and Jobs Act of 2017 ("Act"), which significantly revised the U.S. tax code. Significant impacts of the Act include the reduction of the U.S. corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017 and a one-time transition tax on undistributed earnings and profits of foreign subsidiaries. As of December 30, 2017 the company has not completed the accounting for the effects of the Act. However in accordance with Staff Accounting Bulletin No. 118 ("SAB 118"), the Company has made reasonable estimates related to: (1) the tax effect of the tax rate change which ASC 740 requires to be recognized in the period in which the law is enacted; (2) the tax owed on the one-time transition tax for which the Company expects to pay the federal liability over eight years as allowed by the Act; (3) the re-measurement of deferred taxes recorded or disclosed as permanently reinvested for outside basis differences related to unremitted foreign earnings; and (4) the tax effects related to the realizability of future foreign tax credits.

The material components of the provisional amounts recognized as part of the Act are as follows:

	2017
Re-measurement of U.S. deferred tax balances	\$ (440,257)
One-time transition tax	316,062
Total tax provision (benefit)	<u>\$ (124,195)</u>

SAB 118 allows for adjustments to provision amounts during a measurement period of one year. Therefore, if the Company obtains, prepares, or analyzes additional information about the facts and circumstances that existed as of the enactment date that, if known, would have affected the income

tax effects initially reported as provisional amounts or additional tax effects that are not initially reported as provisional amounts, adjustments may be necessary during the measurement period. Any adjustment will be reported as a component of Provision for income taxes in the reporting period the amounts are determined.

(7) FINANCIAL INSTRUMENTS

The notional amounts of foreign exchange contracts and commodity contracts outstanding at December 30, 2017 were \$4,258 million and \$547 million, respectively. The notional amounts of foreign exchange contracts and commodity contracts outstanding at December 31, 2016 were \$4,419 million and \$807 million, respectively.

As of December 30, 2017, the following derivatives were recorded in the Consolidated Balance Sheet:

	Asset fair value	Liability fair value
Derivatives designated as hedging instruments:		
Foreign exchange contracts	\$ 957	\$ 14,121
	<u>\$ 957</u>	<u>\$ 14,121</u>
Derivatives not designated as hedging instruments:		
Foreign exchange contracts	\$ 16,956	\$ 5,088
Commodity contracts	2,031	42
	<u>\$ 18,987</u>	<u>\$ 5,130</u>

As of December 31, 2016, the following derivatives were recorded in the Consolidated Balance Sheet:

	Asset fair value	Liability fair value
Derivatives designated as hedging instruments:		
Foreign exchange contracts	\$ 29,918	\$ 8,842
	<u>\$ 29,918</u>	<u>\$ 8,842</u>
Derivatives not designated as hedging instruments:		
Foreign exchange contracts	\$ 9,879	\$ 18,173
Commodity contracts	2,190	2,168
	<u>\$ 12,069</u>	<u>\$ 20,341</u>

The fair value of current derivative assets included within prepaid expenses and other was \$8 million and \$30 million as of December 30, 2017 and December 31, 2016, respectively. The fair value of noncurrent derivative assets included within other assets was \$12 million and \$12 million as of December 30, 2017 and December 31, 2016, respectively. The fair value of current derivative liabilities included within accounts payable and accrued liabilities was \$7 million and \$29 million as of December 30, 2017 and December 31, 2016, respectively. The fair value of noncurrent derivative liabilities included within other liabilities was \$12 million and \$0 million as of December 30, 2017 and December 31, 2016, respectively.



### Cash Flow Hedges

The Company's existing derivative positions related to future foreign currency denominated interest payments and certain foreign currency exposures are principally designated as cash flow hedges. The Company applies hedge accounting to these derivatives. The effective portion of the fair value of the cash flow hedges is deferred in accumulated other comprehensive loss and noncontrolling interests until the underlying transactions are reflected in earnings. The net deferred gains on these forward contracts of \$1 million, net of taxes, are expected to be recognized in income over the next 12 months.

The Company enters into certain foreign currency forward contracts to hedge certain of its risks related to anticipated purchases of raw materials, sales of its products in foreign currencies, and intercompany allocations such as royalties and interest payments on intercompany loans. The net deferred gains on these forward contracts of \$12 million, net of taxes, are expected to be recognized in income over the next 12 months.

Gains (losses) recognized in the Consolidated Statements of Income and the Consolidated Statements of Changes in Stockholders' Investment for derivative instruments principally designated as cash flow hedges consisted of:

For the year ended December 30, 2017:

	Gross gain (loss) recognized in Other Comprehensive Income	Location of gain (loss) reclassified from Accumulated Other Comprehensive Loss into income	Gain (loss) reclassified from Accumulated Other Comprehensive Loss and into income
Foreign exchange contracts	\$ (42,568)	Cost of products sold/ foreign exchange loss	\$ 18,596
Interest rate contracts	—	Interest expense	1,144

For the year ended December 31, 2016:

	Gross gain (loss) recognized in Other Comprehensive Income	Location of gain (loss) reclassified from Accumulated Other Comprehensive Loss into income	Gain (loss) reclassified from Accumulated Other Comprehensive Loss and into income
Foreign exchange contracts	\$ (1,165)	Cost of products sold/ foreign exchange loss	\$ (1,425)
Interest rate contracts	—	Interest expense	1,144

### Net Investment Hedges

The Company designates certain foreign currency derivatives as hedges of net investments in foreign operations. As of December 30, 2017 and December 31, 2016, losses of \$4 million and \$1 million, net of taxes, for derivative instruments principally designated as net investment hedges were reported as translation adjustments in accumulated other comprehensive loss in the Consolidated Statements of Changes in Stockholders' Investment.

### Fair Value Hedges

The Company's existing derivative positions related to future foreign currency denominated debt payments are principally designated as fair value hedges. The Company applies hedge accounting to these derivatives. Gains and losses are recognized immediately. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness.

The effect of derivative instruments principally designated as fair value hedges on the Consolidated Statements of Income recognized in foreign exchange gain (loss) was:

	Gain recognized in income on derivatives		Gain (loss) recognized in income on borrowings	
	2017	2016	2017	2016
Foreign exchange contracts	\$ (2,506)	\$ 8,029	\$ 1,773	\$ (8,750)

### Economic Hedges

The Company also enters into certain currency and commodity derivatives, which economically hedge certain risks related to anticipated purchases of raw materials and sales of products in foreign currencies that are not designated as hedges. The related gains and losses are recognized immediately in the Consolidated Statements of Income.

The effect of economic hedges on the Consolidated Statements of Income for the years ended December 30, 2017 and December 31, 2016 was:

	Location of (loss) gain recognized in income on derivatives	(Loss) gain recognized in income on derivatives	
		2017	2016
Foreign exchange contracts	Cost of products sold	\$ 5,950	\$ (38,015)
Foreign exchange contracts	Selling, general and administrative expense	(147)	4,708
Foreign exchange contracts	Foreign exchange loss	(735)	8,652
Commodity contracts	Cost of products sold	(34,873)	(23,612)
		<u>\$ (29,805)</u>	<u>\$ (48,267)</u>

### Derivative Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis were as follows as of December 30, 2017:

	Gross amounts of recognized assets/liabilities			Gross amounts offset in the Consolidated Balance Sheet (1)	Net amounts presented in the Consolidated Balance Sheet	Gross amounts not offset in the Consolidated Balance Sheet	
	Level 1	Level 2	Level 3			Cash collateral	Net amount
<u>Assets</u>							
Foreign exchange contracts	\$ ---	\$ 43,552	\$ ---	\$ (25,639)	\$ 17,913	\$ ---	\$ 17,913
Commodity contracts	4,147		6,694	(8,810)	2,031	---	2,031
	<u>\$ 4,147</u>	<u>\$ 43,552</u>	<u>\$ 6,694</u>	<u>\$ (34,449)</u>	<u>\$ 19,944</u>	<u>\$ ---</u>	<u>\$ 19,944</u>
<u>Liabilities</u>							
Foreign exchange contracts	\$ ---	\$ 44,848	\$ ---	\$ (25,639)	\$ 19,209	\$ ---	\$ 19,209
Commodity contracts	3,814	---	5,038	(8,810)	42	(42)	---
	<u>\$ 3,814</u>	<u>\$ 44,848</u>	<u>\$ 5,038</u>	<u>\$ (34,449)</u>	<u>\$ 19,251</u>	<u>\$ (42)</u>	<u>\$ 19,209</u>

Assets and liabilities measured at fair value on a recurring basis were as follows as of December 31, 2016:

	Gross amounts of recognized assets/liabilities			Gross amounts offset in the Consolidated Balance Sheet (1)	Net amounts presented in the Consolidated Balance Sheet	Gross amounts not offset in the Consolidated Balance Sheet	
	Level 1	Level 2	Level 3			Cash collateral	Net amount
<u>Assets</u>							
Foreign exchange contracts	\$ --	\$64,491	\$ --	\$ (24,694)	\$ 39,797	\$ --	\$ 39,797
Commodity contracts	10,307	-	1,879	(9,996)	2,190		2,190
	<u>\$10,307</u>	<u>\$64,491</u>	<u>\$ 1,879</u>	<u>\$ (34,690)</u>	<u>\$ 41,987</u>	<u>\$</u>	<u>\$ 41,987</u>
<u>Liabilities</u>							
Foreign exchange contracts	\$ -	\$51,709	\$	\$ (24,694)	\$ 27,015	\$ -	\$ 27,015
Commodity contracts	12,164	—	—	(9,996)	2,168	(2,168)	—
	<u>\$12,164</u>	<u>\$51,709</u>	<u>\$ ---</u>	<u>\$ (34,690)</u>	<u>\$ 29,183</u>	<u>\$ (2,168)</u>	<u>\$ 27,015</u>

(1) Amounts represent the impact of legally enforceable master netting agreements that allow the Company to net settle positive and negative positions.

Changes in Level 3 net derivative assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs were as follows:

Balance, January 2, 2016	\$ (4,042)
Total realized/unrealized gains (losses) included in net income (a)	1,974
Purchases, sales and net settlements	<u>3,947</u>
Balance, December 31, 2016	<u>\$ 1,879</u>
Total realized/unrealized gains (losses) included in net income (a)	133
Purchases, sales and net settlements	<u>(356)</u>
Balance, December 30, 2017	<u><u>\$ 1,656</u></u>

(a) Net Income effects are primarily included in cost of products sold.

(8) **PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net consists of the following at December 30, 2017 and December 31, 2016:

	2017	2016
Land	\$ 260,419	\$ 248,877
Buildings and fixtures	2,584,851	2,265,931
Machinery and equipment	7,087,617	6,256,095
Construction in progress	<u>786,887</u>	<u>811,852</u>
	10,719,774	9,582,755
Accumulated depreciation	<u>(6,168,125)</u>	<u>(5,489,880)</u>
	<u><u>\$ 4,551,649</u></u>	<u><u>\$ 4,092,875</u></u>

(9) **GOODWILL AND OTHER INTANGIBLE ASSETS**

The changes in the carrying value of goodwill for the years ended December 30, 2017 and December 31, 2016 were as follows:

	2017	2016
Balance, beginning of year:		
Gross carrying amount	\$ 11,553,378	\$ 11,599,859
Accumulated impairment losses	<u>(15,607)</u>	<u>(15,607)</u>
Net balance, beginning of year:	<u>\$ 11,537,771</u>	<u>\$ 11,584,252</u>
Goodwill acquired	97,466	105,861
Foreign exchange fluctuations	<u>714,049</u>	<u>(152,342)</u>
Net balance, end of year:	<u><u>\$ 12,349,286</u></u>	<u><u>\$ 11,537,771</u></u>

The gross carrying amount and accumulated amortization by major intangible asset class were as follows:

	2017		2016	
	Gross carrying	Accumulated amortization	Gross carrying	Accumulated amortization
Indefinite-lived:				
Trademarks	\$ 9,950	\$ —	\$ 2,422,950	\$ —
Finite-lived:				
Trademarks	\$ 4,305,121	\$ 1,439,235	\$ 2,430,278	\$ 1,252,727
Customer relationships	4,568,927	4,092,611	4,113,757	3,372,249
Patents and technology	1,223,242	1,214,427	1,220,749	1,145,005
Other	43,386	40,956	44,692	44,567
	<u>10,140,676</u>	<u>6,787,229</u>	<u>7,809,476</u>	<u>5,814,548</u>
Total	<u>\$ 10,150,626</u>	<u>\$ 6,787,229</u>	<u>\$ 10,232,426</u>	<u>\$ 5,814,548</u>

Amortization expense for each of the next five years is estimated to be \$546 million, \$153 million, \$150 million, \$148 million and \$147 million.

Based on the Company's annual impairment test of indefinite-lived trademarks, the Company recognized impairment losses of \$649 million during the year ended December 30, 2017. The impairment losses included \$639 million loss related to the Wrigley indefinite-lived trademarks and \$10 million related to a pet nutrition indefinite-lived trademark. The Company used the relief-from-royalty method in determining the fair value of the trademarks which includes projection of future sales, expected market royalty rates, and market discount rates. Lower projected future sales combined with higher discount rates as compared to the 2016 impairment test led to the impairment losses in 2017. Subsequent to the recognition of the impairment, the Company re-assessed the remaining useful life and determined that these trademarks have a finite useful life of 30 years and commenced amortizing these trademarks subsequent to the impairment testing date.

#### (10) RESTRUCTURING

From time to time the Company approves and implements plans to restructure certain operations with the intent of better managing the Company's cost structure and aligning certain operations more effectively with current business conditions. The Company expects the majority of the restructuring plans to be completed within one year, with plans in certain countries extending beyond one year as a result of compliance with local country laws.

The activity in the accrued restructuring balances related to the above plans was as follows:

	Severance and benefits	Other restructuring related costs	Total
Balance, January 2, 2016	\$ 28,079	\$ 3,696	\$ 31,775
Expense	47,238	7,900	55,138
Payments	(48,384)	(5,956)	(54,340)
Foreign exchange fluctuations	(347)	(147)	(494)
Balance, December 31, 2016	<u>\$ 26,586</u>	<u>\$ 5,493</u>	<u>\$ 32,079</u>
Expense	104,024	21,289	125,313
Payments	(50,213)	(18,131)	(68,344)
Foreign exchange fluctuations	2,177	(61)	2,116
Balance, December 30, 2017	<u><u>\$ 82,574</u></u>	<u><u>\$ 8,590</u></u>	<u><u>\$ 91,164</u></u>

Restructuring charges of \$106 million and \$19 million were recorded during 2017 in selling, general and administrative expense and cost of products sold, respectively. Included in the 2017 restructuring charges were \$93 million of expenses incurred related to the combination of the Company's Mars Chocolate and Wrigley segments into a new segment called Mars Wrigley Confectionery. The Company expects to incur additional restructuring charges of between \$215 million and \$250 million relating to Mars Wrigley Confectionery through 2020.

Restructuring charges of \$42 million and \$13 million were recorded during 2016 in selling, general and administrative expense and cost of products sold, respectively.

The restructuring liability is included in accounts payable and accrued liabilities and other liabilities in the Consolidated Balance Sheets.

#### (11) COMMITMENTS AND CONTINGENCIES

The Company is party to various lawsuits and actions arising in the course of its business. The Company accrues for litigation and claims when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company has evaluated claims in accordance with the accounting guidance for contingencies. In the opinion of the Company, based on a number of factors, including advice of outside legal counsel in certain instances, the ultimate resolution of these matters will not have a material adverse effect on the financial position or results of operations or cash flows of the Company. However, it is reasonably possible that some matters could be decided unfavorably to the Company and could require the Company to make payments in amounts that could be material. In the opinion of management, this potential exposure is not reasonably estimable.

The Company has committed to an investment in limited partnerships not to exceed \$21 million, of which \$6 million remains committed and unfunded at December 30, 2017.

The Company has entered into agreements to lease certain office and warehouse facilities and equipment under both capital and operating leases. Amortization of assets recorded under capital leases was included in depreciation expense.

Rental expense under operating leases was \$166 million and \$155 million for the year ended December 30, 2017 and December 31, 2016, respectively. The following is a summary of future minimum lease payments for all capital leases and operating leases as of December 30, 2017:

	Capital leases	Operating leases	Total
2018	\$ 12,750	\$ 134,869	\$ 147,619
2019	12,788	91,921	104,709
2020	12,972	70,528	83,500
2021	12,007	42,279	54,286
2022	8,618	28,896	37,514
Thereafter	110,026	113,593	223,619
Total minimum lease payments	\$ 169,161	\$ 482,086	\$ 651,247
Amounts representing interest	(78,414)		
Present value of minimum lease payments	90,747		
Current portion of obligations under capital leases	(12,750)		
Long-term portion of obligations under capital leases	\$ 77,997		

(12) PREFERRED STOCK

At December 31, 2016 the Company had 96,500 shares of preferred stock issued and outstanding for \$975 million, which accrued a \$544.04 per share dividend payable annually. On July 10, 2017 all outstanding preferred shares were converted into common shares for a par value of \$0.01. At the conversion date the Company recorded \$1,073 million as additional paid in capital and \$31 million for proportional dividends.

(13) RELATED PARTIES

The Company enters into various transactions with Mars and its affiliated subsidiaries in the normal course of business or in connection with integration activities between the two companies. Such transactions include the purchase and sale of finished product, the sublicensing of Wrigley intellectual property rights, the purchase and sale of property, plant and equipment, and the transfer and cross charging of associates and other charges.

On September 27, 2016, Mars purchased all issued and outstanding preferred stock in Wrigley.

During the years ended December 30, 2017 and December 31, 2016 transactions with related parties were as follows:

	Location on the Financial Statements	2017	2016
Sales	Net sales	\$ 1,369,318	\$ 1,191,240
Purchases	Cost of products sold and inventory	1,204,369	1,057,698
Shared service costs, management fees and other charges	Selling, general and administrative expenses	179,845	159,102
Technology and IT related fees	Selling, general and administrative expenses	192,695	182,417
Interest income and expenses	Interest expense with Mars, net	57	33,994

As of December 30, 2017 and December 31, 2016 balances with related parties were as follows:

	2017	2016
Due from Mars, net (a)	\$ 4,353,245	\$ 5,519,889
Borrowings from Mars (b):		
Guaranteed revolver at 1.96% variable rate	\$ 402,128	\$ 373,993
2016 Term Loan at 2.22% variable rate due 2021	1,338,799	1,500,390
	<u>1,740,927</u>	<u>1,874,383</u>
Less: current portion of borrowings	634,677	543,133
Long-term borrowings from Mars	<u>\$ 1,106,250</u>	<u>\$ 1,331,250</u>

- (a) Includes the net of accounts receivable, cash management, notes receivable, notes payables, and accounts payable balances, as a result of transactions in the normal course of business. Mars generally has the unilateral ability to modify its global intercompany capital structure, and modify the payment terms for note agreements, accounts receivable and accounts payable. The aggregated balance of these transactions represents a net due from Mars, and is presented within current assets.
- (b) In September 2016, Mars paid in full \$1,881 million of the Company's loan with third parties (Senior Unsecured Term Loan). In consideration for Mars' payment of the Senior Unsecured Term Loan, the Company entered into a 2016 Credit Agreement with Mars that provides for a \$1,500 million term loan and \$400 million guaranteed revolver borrowing available. This was a non-cash financing activity for the year ended December 31, 2016. Borrowings under the term loan require quarterly principal payments with maturities during the next five years as follows: \$225 million in 2018, 2019, and 2020, and \$656 million in 2021.

#### *Credit facility*

In April 2017, a Mars subsidiary in China amended an existing revolving credit facility to borrow up to 650,000 Chinese Yuan from Wrigley's Chinese subsidiary, bearing interest at a fixed rate of 2.0%. The credit facility matures on December 7, 2020. As of December 30, 2017 and December 31, 2016 the Mars subsidiary in China had no borrowings outstanding under its credit facility.

#### *Guarantee Obligations*

Pursuant to guarantee agreements, Wrigley unconditionally guarantees, on a joint and several basis, the payment of (i) all of the obligations of Mars under the credit agreement, dated as of September 27, 2016 as amended and restated as of September 12, 2017 (the "Mars Credit Agreement"), among Mars, as borrower, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent, (ii) all of the obligations of Mars under the Mars 6.47% Series B Notes due 2018, 6.52% Series C Notes due 2019, 6.57% Series D Notes due 2020, 6.72% Series E Notes due 2023, 2.72% Series G Notes due 2019, 3.34% Series H Notes due 2022, 3.25% Series I Notes due 2022, 3.49% Series J Notes due 2024, 3.74% Series K Notes due 2027, 2.51% Series L Notes due 2023, 1.58% Series M Notes due 2023, 2.72% Series N Notes due 2026, 2.82% Series O Notes due 2028, 2.97% Series P Notes due 2031, 3.34% Series Q Notes due 2036, 3.57% Series R Notes due 2041, 3.75% Series S Notes due 2046, 3.30% Series T-1 Notes due 2024, 3.30% Series T-2 Notes due 2024, 3.53% Series U-1 Notes due 2027, 3.53% Series U-2 Notes due 2027, 3.63% Series V-1 Notes 2029, 3.63% Series V-2 Notes 2029, 3.78% Series W Notes due 2032, 4.07% Series X Notes due 2037, 4.27% Series Y-1 Notes due 2042, 4.27% Series Y-2 Notes due 2042, 1.37% Series Z Notes due 2022, 1.71% Series AA Notes due 2024, 2.00% Series BB Notes due 2027,



6.05% Series CC Notes due 2022, and 7.74% Series DD Notes due 2018 (the notes described in this clause (ii), collectively, the “Guaranteed Notes”).

The Mars Credit Agreement currently includes credit facilities in an aggregate principal amount of \$10,000 million and provides that Mars may increase the aggregate principal amount of credit facilities available thereunder by up to \$1,000 million. The aggregate principal amount outstanding under the Mars Credit Agreement as of December 30, 2017 was \$8,325 million. The guarantee by Wrigley of the obligations under the Mars Credit Agreement will automatically terminate upon (i) the termination or expiration of commitments of the lenders to make extensions of credit to Mars pursuant to the Mars Credit Agreement and (ii) the payment in full of the obligations of Mars under the Mars Credit Agreement.

The aggregate principal amount outstanding under the Guaranteed Notes as of December 30, 2017 was \$8,113 million. The guarantee by Wrigley the obligations under each Guaranteed Notes will automatically terminate upon the payment in full of the obligations of the issuer thereof under such Guaranteed Notes.

#### (14) ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss, net of tax, at December 30, 2017 and December 31, 2016 were as follows:

	Foreign currency translation adjustments	Deferred hedges	Unrealized gain on investments	Pension and other post- retirement benefits	Total
Balance, January 2, 2016	\$ (3,921,574)	\$ 4,296	\$ 64,888	\$ (2,407,524)	\$ (6,259,914)
Other comprehensive income before reclassification	(51,896)	(1,259)	25,912	(592,554)	(619,797)
Reclassification from other comprehensive income	—	(173)	390	149,844	150,061
Other comprehensive income, net	(51,896)	(1,432)	26,302	(442,710)	(469,736)
Balance, December 31, 2016	\$ (3,973,470)	\$ 2,864	\$ 91,190	\$ (2,850,234)	\$ (6,729,650)
Other comprehensive income before reclassification	1,716,285	(29,829)	76,995	(404,771)	1,358,680
Reclassification from other comprehensive income	—	13,833	(9,294)	221,861	226,400
Other comprehensive income, net	1,716,285	(15,996)	67,701	(182,910)	1,585,080
Balance, December 30, 2017	<u>\$ (2,257,185)</u>	<u>\$ (13,132)</u>	<u>\$ 158,891</u>	<u>\$ (3,033,144)</u>	<u>\$ (5,144,570)</u>

The components of comprehensive income for the year ended December 30, 2017 were as follows:

	Total Wm. Wrigley Jr. Company	Non controlling interests	Total
Net income	\$ 1,603,016	\$ 361,606	\$1,964,622
Cumulative translation adjustments, net of tax expense of \$7,264	1,716,285	—	1,716,285
Deferred hedges:			
Net deferred hedging gains (losses), net of tax benefit of \$12,739	(29,829)	—	(29,829)
Less: reclassification of deferred hedging losses recognized in net income net of tax benefit of \$5,907	13,833	—	13,833
Unrealized gain on available-for-sale securities:			
Unrealized gains arising during the period, net of tax expense of \$1,022	76,995	—	76,995
Less: reclassification of (gains) on investments included in net income net of tax expense of \$126	(9,294)	—	(9,294)
Net change in pension and other postretirement expense, net of tax benefit of \$48,990 (a)	(182,910)	1,877	(181,033)
Comprehensive income	<u>\$ 3,188,096</u>	<u>\$ 363,483</u>	<u>\$3,551,579</u>

- (a) Refer to Note 4 for information related to the prior service costs arising during the period, the net loss arising during the period and amortization of prior service costs included in net periodic pension cost.

The components of comprehensive income for the year ended December 31, 2016 were as follows:

	Total Wm. Wrigley Jr. Company	Non controlling interests	Total
Net income	\$ 1,418,044	431,157	\$1,849,201
Cumulative translation adjustments, net of tax benefit of \$110,080	(51,896)	—	(51,896)
Deferred hedges:			
Net deferred hedging gains (losses), net of tax benefit of \$83	(1,259)	—	(1,259)
Less: reclassification of deferred hedging gains recognized in net income net of tax expense of \$108	(173)	—	(173)
Unrealized gain on available-for-sale securities:			
Unrealized gains arising during the period, net of tax expense of \$753	25,912	—	25,912
Less: reclassification of (gains) on investments included in net income net of tax expense of \$0	390	—	390
Net change in pension and other postretirement expense, net of tax benefit of \$130,158 (a)	(442,710)	(4,953)	(447,663)
Comprehensive income	<u>\$ 948,308</u>	<u>\$ 426,204</u>	<u>\$1,374,512</u>

- (a) Refer to Note 4 for information related to the prior service costs arising during the period, the net loss arising during the period and amortization of prior service costs included in net periodic pension cost.

(Gains) losses recognized in the Consolidated Statement of Income for reclassifications from accumulated other comprehensive loss were included in the following financial statement line items during the years ended December 30, 2017 and December 31, 2016:

Description of Accumulated Other Comprehensive Loss Components	Location of (Gain) Loss Recognized in the Statements of Income	Amounts Reclassified Accumulated Other Comprehensive Loss	
		2017	2016
Deferred Hedges:			
Foreign exchange contracts	Cost of products sold	\$ 6,265	\$ 780
Foreign exchange contracts	Foreign exchange loss (gain)	12,331	(2,205)
Interest rate contracts	Interest expense	1,144	1,144
	Total before tax	19,740	(281)
	Tax benefit (expense)	5,907	(108)
	Net of Tax	<u>\$ 13,833</u>	<u>\$ (173)</u>
Unrealized (gain) loss on investments:			
Realized gain on sale of investments	Investment income	\$ (9,420)	\$ 390
	Tax (expense)	(126)	—
		<u>\$ (9,294)</u>	<u>\$ 390</u>
Pension and Other Postretirement:			
Net loss	(b)	\$ 300,501	\$ 203,801
Net prior service cost	(b)	867	2,012
	Total before tax	301,368	205,813
	Tax benefit	79,507	55,969
	Net of Tax	<u>\$ 221,861</u>	<u>\$ 149,844</u>

(b) Accumulated other comprehensive loss components are included in the computation of net periodic pension cost (see Note 4 for additional detail).

## (15) SUBSEQUENT EVENTS

The Company evaluated subsequent events through March 30, 2018, the date the Consolidated Financial Statements were available to be issued, for conditions both existing and not existing as of December 30, 2017 and concluded there were no subsequent events to recognize and no additional subsequent events to disclose other than those listed below.

On January 17, 2018, the Company acquired a 40% ownership interest in KIND Inc. ("KIND") for \$1.3 billion. The Company paid cash for KIND, which was financed through a long term loan from Mars. KIND sells healthy snacks and its recipes include nutrient-dense, simple and premium ingredients. KIND's sales are predominantly in the U.S. and Canada.

In conjunction with the global reorganization of Mars certain subsidiaries in the following countries have been contributed to the Company subsequent to December 30, 2017: Russia, Poland, Hong Kong, Philippines, Kazakhstan, Malaysia and Thailand.