Dr Pepper Snapple Group, Inc.
Form 10-K
February 14, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
Form 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-33829
(Exact name of Registrant as specified in its charter)

Delaware	98-0517725
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
5301 Legacy Drive, Plano, Texas	75024
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code:
(972) 673-7000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
COMMON STOCK, $0.01 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large Accelerated Filer x	Accelerated Filer o	Non-Accelerated Filer o	Smaller Reporting Company o	Emerging Growth Company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the common equity held by non-affiliates of the registrant (assuming for these purposes, but without conceding, that all executive officers and directors are "affiliates" of the registrant) as of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was $16,544,425,098 (based on the closing sales price of the registrant's common stock on that date as reported on the New York Stock Exchange). As of February 8, 2018, there were 179,744,078 shares of the registrant's common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the registrant's Annual Meeting of Stockholders or on an amendment on Form 10-K/A are incorporated by reference in Part III.

DR PEPPER SNAPPLE GROUP, INC.
FORM 10-K
For the Year Ended December 31, 2017

		Page
PART I.		
Item 1.	Business	1
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	22
Item 2.	Properties	23
Item 3.	Legal Proceedings	23
Item 4.	Mine Safety Disclosures	23
PART II.		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	24
Item 6.	Selected Financial Data	26
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	50
Item 8.	Financial Statements and Supplementary Data	52
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	116
Item 9A.	Controls and Procedures	116
Item 9B.	Other Information	116
PART III.		
Item 10.	Directors, Executive Officers of the Registrant and Corporate Governance	
Item 11.	Executive Compensation	
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	
Item 13.	Certain Relationships and Related Transactions and Director Independence	
Item 14.	Principal Accounting Fees and Services	
PART IV.		
Item 15.	Exhibits and Financial Statement Schedules	118

EXPLANATORY NOTE

On January 29, 2018, Dr. Pepper Snapple Group, Inc. ("DPS") entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among DPS, Maple Parent Holdings Corp. ("Maple Parent") and Salt Merger Sub, Inc. ("Merger Sub"), whereby Merger Sub will be merged with and into Maple Parent, the owner of Keurig Green Mountain, Inc. ("Keurig"), a leader in specialty coffee and innovative single serve brewing systems, with Maple Parent surviving the merger as a wholly-owned subsidiary of DPS and the holders of the equity interests of Maple Parent will receive newly-issued shares of DPS common stock (the "Acquisition Shares") constituting approximately 87% of our outstanding common stock, on a fully diluted basis following the closing (the "Transaction"). The completion of the Transaction requires the approval by the holders of DPS' common stock of (i) an amendment to the DPS certificate of incorporation to increase the number of authorized shares of common stock and to change DPS' name to "Keurig Dr Pepper Inc." and (ii) the issuance of the Acquisition Shares pursuant to the Merger Agreement (collectively, the "Stockholder Approvals"). DPS expects to seek the Stockholder Approvals at a meeting of stockholders to be scheduled. DPS will prepare, file and mail a definitive proxy statement relating to such meeting. The definitive proxy statement will contain a more detailed description of the Merger Agreement and the Transaction.

Please see "Item 1 - Business - Proposed Keurig Transaction" for further information.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements including, in particular, statements about future events, and future financial performance, including earnings estimates, plans, strategies, expectations, prospects, competitive environment, regulation and availability of raw materials. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "may," "will," "expect," "anticipate," "believe," "estimate," "plan," "intend" or the negative of these terms or similar expressions in this Annual Report on Form 10-K. We have based these forward-looking statements on our current views with respect to future events and financial performance, including for KDP (formerly DPS) following the closing of the Transaction. Our actual financial performance could differ materially from those projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections, as well as a variety of other risks and uncertainties and other factors, and our financial performance may be better or worse than anticipated. Given these uncertainties, you should not put undue reliance on any forward-looking statements. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We do not undertake any duty to update the forward-looking statements, and the estimates and assumptions associated with them after the date of this Annual Report on Form 10-K, except to the extent required by applicable securities laws. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed in Item 1A, "Risk Factors" under "Risks Related to Our Business" and elsewhere in this Annual Report on Form 10-K. These risk factors may not be exhaustive, as we operate in a continually changing business environment with new risks emerging from time to time that we are unable to predict or that we currently do not expect to have a material adverse effect on our business. You should carefully read this report in its entirety as it contains important information about our business and the risks we face.

Our forward-looking statements are subject to risks and uncertainties, including:

- stockholders may not approve the Stockholder Approvals;
- regulatory and required approvals in connection with the Transaction may not be obtained on the proposed terms or on the anticipated schedule;
- conditions of the Transaction may not be satisfied or waived;
- legal proceedings or governmental inquiries in connection with the Transaction could delay or prevent the completion of the Transaction;
- DPS stockholders will have a minority ownership and voting interest after the Transaction and exercise less influence;
- the composition of the DPS Board of Directors (our "Board") will change following the Transaction;
- the Company will be a "controlled company" following the Transaction and will rely on exemptions from certain corporate governance requirements, including having fewer independent directors on its board of directors or board

committees following the Transaction;

- the Merger Agreement may be terminated in accordance with its terms and the Transaction may not be consummated;
- failure to consummate the Transaction could negatively impact DPS and its future operations;
- business uncertainties and certain operating restrictions will exist for both DPS and Keurig until consummation of the Transaction;
- restrictions on DPS' ability to pursue other alternatives to the Transaction;
- DPS stockholders' investment could be materially and adversely affected if the due diligence of Keurig was inadequate or if unexpected risks related to Keurig materialize;
- expected combination benefits from the Transaction may not be fully-realized;
- integration of the combined businesses of DPS and Keurig may not be successful or may be more challenging than anticipated;
- the diversion of management's attention to the completion of the Transaction and the integration of the DPS and Keurig businesses may reduce management's ability to devote sufficient time to the Company's business and operations prior to and after the Transaction;
- the announcement of the Transaction may lead to the departure of key personnel;

- downgrade of DPS' credit rating below investment grade could occur;
- Maple Parent and DPS will incur direct and indirect costs as a result of the Transaction;
- restrictions on DPS from indebtedness agreements in connection with the Transaction may affect business operations;
- additional risks associated with the coffee and appliance business and operations in new geographical regions;
- changes in consumer preferences, trends and health concerns;
- maintaining our relationships with our allied brand owners;
- changes in the cost of commodities used in our business;
- the impact of new or proposed beverage taxes or regulations on our business;
- our ability to successfully integrate and manage our acquired businesses or brands;
- dependence on third party bottling and distribution companies;
- maintaining our relationships with our large retail customers;
- operating in highly competitive markets and our ability to compete with companies with significant financial resources;
- future impairment of our goodwill and other intangible assets;
- the need to service our debt;
- fluctuations in foreign currency exchange rates;
- disruptions to our information systems and third-party service providers;
- increases in the cost of employee benefits;
- recession, financial and credit market disruptions and other economic conditions;
- litigation claims or legal proceedings against us;
- shortages of materials used in our business;
- substantial disruption at our manufacturing or distribution facilities;
- failure to comply with governmental regulations in the countries in which we operate;
- weather, natural disasters, climate changes and the availability of water;
- our products meeting health and safety standards or contamination of our products;
- fluctuations in our tax obligations;
- strikes or work stoppages;
- infringement of our intellectual property rights by third parties, intellectual property claims against us or adverse events regarding licensed intellectual property;
- the need for substantial investment and restructuring at our manufacturing, distribution and other facilities;
- our ability to retain or recruit qualified personnel; and
- other factors discussed in Item 1A, "Risk Factors" under "Risks Related to Our Current DPS Business" and elsewhere in this Annual Report on Form 10-K.

Table of Contents

PART I
ITEM 1. BUSINESS
OUR COMPANY
Dr Pepper Snapple Group, Inc. is a leading integrated brand owner, manufacturer and distributor of non-alcoholic beverages in the United States ("U.S."), Mexico and the Caribbean, and Canada with a diverse portfolio of flavored (non-cola) carbonated soft drinks ("CSDs") and non-carbonated beverages ("NCBs"), including ready-to-drink teas, juices, juice drinks, water and mixers. We have some of the most recognized beverage brands in North America, with significant consumer awareness levels and long histories that evoke strong emotional connections with consumers. References in this Annual Report on Form 10-K to "we", "our", "us", "DPS" or "the Company" refer to Dr Pepper Snapple Group, Inc. and its subsidiaries, unless the context requires otherwise.
The following provides highlights about our company:

- #1 flavored CSD company[(1)] in the U.S.
- Approximately 83% of our bottler case sales ("BCS") volume from brands that are either #1 or #2 in their category[(1)]
- #3 North American liquid refreshment beverage ("LRB") business[(1)]
- $6.7 billion of net sales in 2017 from the U.S. (90%), Mexico and the Caribbean (7%) and Canada (3%)

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(1) Based on retail sales as reported by Information Resources, Inc. ("IRi")

History of Our Business
We have built our business over the last three decades through a series of strategic acquisitions. In the 1980s through the mid-1990s, we began building on our then-existing Schweppes business by adding brands such as Mott's, Canada Dry and A&W and a license for Sunkist soda. We also acquired the Peñafiel business in Mexico. In 1995, we acquired Dr Pepper/Seven Up, Inc., having previously made minority investments in the company. In 1999, we acquired a 40% interest in Dr Pepper/Seven Up Bottling Group, Inc. ("DPSUBG"), which was then our largest independent bottler, and increased our interest to 45% in 2005. In 2000, we acquired Snapple and other brands, significantly increasing our share of the U.S. NCB market segment. During 2006 and 2007, we acquired the remaining 55% of DPSUBG and several smaller bottlers and integrated them into our Packaged Beverages segment, thereby expanding our geographic coverage.
We were incorporated in Delaware on October 24, 2007. In 2008, Cadbury Schweppes plc ("Cadbury") separated its beverage business in the U.S., Canada, Mexico and the Caribbean (the "Americas Beverages business") from its global confectionery business by contributing the subsidiaries that operated its Americas Beverages business to us.
PROPOSED KEURIG TRANSACTION

On January 29, 2018, DPS entered into the Merger Agreement by and among DPS, Maple Parent and Merger Sub, whereby Merger Sub will be merged with and into Maple Parent, with Maple Parent surviving the merger as a wholly-owned subsidiary of the Company. For financial reporting and accounting purposes, Maple Parent will be the acquirer of DPS upon completion of the Transaction.

Maple Parent owns Keurig, a leader in specialty coffee and innovative single serve brewing systems. The combined businesses will create Keurig Dr Pepper Inc. ("KDP"), a new beverage company of scale with a portfolio of iconic consumer brands and expanded distribution capability to reach virtually every point-of-sale in North America.

In consideration for the Transaction, each share of common stock of Maple Parent issued and outstanding immediately prior to the closing of the Transaction (the “Effective Time”) shall be converted into the Acquisition Shares. As a result, upon completion of the Transaction, the former stockholders of Maple Parent will own approximately 87% of our common stock and our continuing stockholders will own approximately 13% on a fully diluted basis.

The Merger Agreement provides that DPS will declare a special cash dividend equal to $103.75 per share, subject to any withholding of taxes required by law, payable to holders of its common stock as of the business day immediately

prior to the completion of the Transaction.

The completion of the Transaction is subject to, among other things, the Stockholder Approvals.

See Note 20 of the Notes to our Audited Consolidated Financial Statements for further information related to the Transaction.

Table of Contents

PRODUCTS AND DISTRIBUTION

We are a leading integrated brand owner, manufacturer and distributor of non-alcoholic beverages in the U.S., Mexico and the Caribbean and Canada. We also sell certain of our products to distributors in Europe and Asia. We recognized net sales from the shipment of 1.6 billion equivalent 288 fluid ounce cases in 2017. The following charts provide various details regarding sources of our total 288 fluid ounce cases in 2017:

Our success is fueled by more than 50 brands that are synonymous with refreshment, fun and flavor. We have seven of the top 10 non-cola soft drinks, and nine of our 10 leading brands are #1 or #2 in their flavor categories based on IRi sales volume.

Table of Contents

The highlights about our priority brands as of December 31, 2017 are as follows:

- #1 in its flavor category and #2 overall flavored CSD in the U.S.
- Distinguished by its unique blend of 23 flavors and loyal consumer following
- Flavors include regular, diet, cherry and Dr Pepper TEN
- Oldest major soft drink in the U.S., introduced in 1885

- #1 ginger ale in the U.S. and Canada, which includes regular, diet and Canada Dry TEN
- Brand also includes club soda, tonic, sparkling water and other mixers
- Created in Toronto, Canada in 1904 and introduced in the U.S. in 1919

- #2 lemon-lime CSD in the U.S.
- Flavors include regular, diet, cherry and 7UP TEN
- The original "Un-Cola," created in 1929

- #1 root beer in the U.S.
- Flavors include regular, diet, A&W TEN and cream soda
- A classic all-American beverage first sold at a veteran's parade in 1919

- #1 carbonated mineral water brand in Mexico
- Brand includes unflavored mineral water, Limeade, Orangeade, Grapefruitade, Strawberryade, Twist and Flavors
- Mexico's oldest mineral water, created in 1948

- #1 grapefruit CSD in the U.S. and a leading grapefruit CSD in Mexico
- Founded in 1938

- #2 ginger ale in the U.S. and Canada
- Brand includes club soda, tonic, sparkling water and other mixers
- First carbonated beverage in the world, invented in 1783

- #2 premium shelf-stable ready to drink tea in the U.S.
- A full range of premium, flavored tea products including regular and diet offerings, as well as unflavored Straight Up Tea
- Brand also includes premium juices and juice drinks
- Founded in Brooklyn, New York in 1972

Table of Contents

- #4 enhanced water brand in the U.S. and one of the fastest-growing LRB brands in the U.S.
- Bai, Bai Cocofusion and Bai Bubbles lines offer fresh fruit flavor and antioxidants.
- Bai Supertea is an antioxidant-infused real brewed tea.
- Created in 2008
- #1 branded multi-serve apple juice and apple sauce brand in the U.S.
- Juice products include apple and other fruit juices and Mott's for Tots
- Apple sauce products include regular, unsweetened and flavored
- Brand began as a line of apple cider and vinegar offerings in 1842
- A leading spicy tomato juice brand in the U.S., Canada and Mexico that ranks as the #1 shelf stable vegetable juice brand in the U.S.
- Key ingredient in the popular Mexican drink, the Michelada, and Canada's national drink cocktail, the Bloody Caesar
- Brand includes a variety of flavors, Original, Picante, Lime, Camarón, Vuelve a la Vida, Cubano and Preparado (the Works)
- Created in 1969

All information regarding our brand market positions in the U.S. is from IRi and is based on sales volume in 2017.
All logos in the table above are registered trademarks of DPS or its subsidiaries.

In the CSD market in the U.S. and Canada, we participate primarily in the flavored CSD category. Our significant brands are Dr Pepper, Canada Dry, 7UP, Crush, A&W, Sunkist soda, Schweppes, Squirt and RC Cola. We also sell regional and smaller niche brands, such as Vernors. In the CSD market, we distribute finished beverages and manufacture beverage concentrates and fountain syrups. Beverage concentrates are highly concentrated proprietary flavors used to make syrup or finished beverages. We manufacture beverage concentrates that are used by our own Packaged Beverages and Latin America Beverages segments, as well as sold to third party bottling companies. According to IRi, we had a 21.7% share of the U.S. CSD market in 2017 (measured by retail sales), an increase of 0.5% over 2016. We also manufacture fountain syrup that we sell to the foodservice industry directly, through bottlers or through other third parties.

In the NCB market segment in the U.S., we participate primarily in the ready-to-drink tea, juice, juice drinks, water, including enhanced and flavored water, and mixer categories. Our significant NCB brands are Snapple, Hawaiian Punch, Mott's, Clamato and Bai. We also sell regional and smaller niche brands, such as Nantucket Nectars. We manufacture most of our NCBs as ready-to-drink beverages and distribute them through our own distribution network and through third parties or direct to our customers' warehouses. In addition to NCB beverages, we also manufacture Mott's apple sauce as a finished product.

In Mexico and the Caribbean, we participate primarily in the carbonated mineral water, flavored CSDs, bottled water and vegetable juice categories. Our significant brands in Mexico include Peñafiel, Squirt, Aguafiel, Clamato and Crush. In Mexico, we manufacture and sell our brands through both our own manufacturing and distribution operations as well as third party bottlers. In the Caribbean, we distribute our products solely through third party distributors and bottlers. We have also begun to distribute certain products in other international jurisdictions through various third party bottlers and distributors.

In 2017, we manufactured and/or distributed approximately 52% of our total products sold in the U.S. (as measured by volume). In addition, our businesses manufacture and/or distribute a variety of brands owned by third parties in specified licensed geographic territories.

OUR STRENGTHS

The key strengths of our business are:

Strong portfolio of leading, consumer-preferred brands. We own a diverse portfolio of well-known CSD and NCB brands. Many of our brands enjoy high levels of consumer awareness, preference and loyalty rooted in their rich heritage, which drive their market positions. Our diverse portfolio provides our bottlers, distributors and retailers with a wide variety of products and provides us with a platform for growth and profitability. According to IRi retail sales, we are the #1 flavored CSD company in the U.S. Our largest brand, Dr Pepper, is the #2 flavored CSD in the U.S. and

our Snapple brand is a leading ready-to-drink tea. Overall, in 2017, approximately 83% of our volume was generated by brands that hold either the #1 or #2 position in their category. The strength of our significant brands has allowed us to launch innovations, brand extensions or limited time offers.

Integrated business model. Our integrated business model provides opportunities for net sales and profit growth through the alignment of the economic interests of our brand ownership and our manufacturing and distribution businesses. For example, we can focus on maximizing profitability for our company as a whole rather than focusing on profitability generated from either the sale of beverage concentrates or the bottling and distribution of our products. Additionally, our integrated business model enables us to be more flexible and responsive to the changing needs of our large retail customers by coordinating sales, service, distribution, promotions and product launches and allows us to more fully leverage our scale and reduce costs by creating greater geographic manufacturing and distribution coverage. Our manufacturing and distribution system in the U.S. also enables us to improve focus on our brands, especially certain brands such as 7UP, A&W, Sunkist soda, Squirt, Snapple and Hawaiian Punch, which do not have a large presence in the bottler systems affiliated with The Coca-Cola Company ("Coca-Cola") or PepsiCo, Inc. ("PepsiCo").

Strong customer relationships. Our brands have enjoyed long-standing relationships with many of our top customers. We sell our products to a wide range of customers, from bottlers and distributors to national retailers, large food service and convenience store customers. We have strong relationships with some of the largest bottlers and distributors, including those affiliated with Coca-Cola and PepsiCo, some of the largest and most important retailers, including WalMart Stores, Inc. ("Walmart"), The Kroger Co., Albertson Companies LLC, Target Corporation and Publix Super Markets, Inc., some of the largest food service customers, including McDonald's Corporation, Restaurant Brands International Inc., Yum! Brands, Inc., Sonic Corp., The Wendy's Company, Chick-fil-A, Inc., Subway Restaurants, Whataburger Restaurants LLC, Arby's Group, Inc., and Jack in the Box, Inc., and convenience store customers, including 7-Eleven, Inc., OXXO and Circle K Enterprises, Inc. Our portfolio of strong brands, operational scale and experience across beverage segments has enabled us to maintain strong relationships with our customers.

Attractive positioning within a large and profitable market. We hold the #1 position in the U.S. flavored CSD beverage markets by sales volume according to IRi. We are also a leader in the Canada and Mexico beverage markets. Our portfolio of products is biased toward flavored CSDs, which continue to gain market share versus cola CSDs, but also focuses on growing categories such as teas, juices and enhanced and flavored water.

Broad geographic manufacturing and distribution coverage. As of December 31, 2017, we had 18 manufacturing facilities and 98 principal distribution centers and warehouse facilities in the U.S., as well as four manufacturing facilities and 21 principal distribution centers and warehouse facilities in Mexico. We have strategically located manufacturing and distribution capabilities, enabling us to better align our operations with our customers, reduce transportation costs and have greater control over the timing and coordination of new product launches. In addition, our warehouses are generally located at or near bottling plants and geographically dispersed to ensure our products are available to meet consumer demand. We actively manage transportation of our products using our fleet (owned and leased) of approximately 6,100 and 1,700 vehicles in the U.S. and Mexico, respectively, and third party logistics providers on a selected basis.

As a result of our distribution capabilities, we believe brand owners view us as a partner with a strong route-to-market in order to grow their allied brands in our Packaged Beverages segment. These allied brand partnerships allow us to rapidly participate in growth in emerging and fast growing categories where we do not currently have a brand presence. We typically make a minimal investment in each allied brand company in order to obtain a return for our distribution efforts.

Strong operating margins and stable cash flows. The breadth of our brand portfolio has enabled us to generate strong operating margins which have delivered stable cash flows. These cash flows enable us to consider a variety of alternatives, such as acquisitions, investing in our business, repurchasing shares of our common stock, paying dividends to our stockholders and reducing our debt. As a result of our stable cash flows, we have been able to increase our dividends each year since 2010 in order to return more cash to our stockholders.

Experienced executive management team. Our executive management team has over 200 years of collective experience in the food and beverage industry. The team has broad experience in brand ownership, manufacturing and distribution, and enjoys strong relationships both within the industry and with major customers. In addition, our management team has diverse skills that support our operating strategies, including driving organic growth through

targeted and efficient marketing, improving productivity of our operations, aligning manufacturing and distribution interests and executing strategic acquisitions.

OUR STRATEGY

The key elements of our business strategy are to:

Build our brands. We have a well-defined portfolio strategy to allocate our marketing and sales resources. We use an on-going process of market and consumer analysis to identify key brands that we believe have the greatest potential for profitable sales growth. We continue to invest most heavily in our priority brands to drive profitable and sustainable growth by strengthening consumer awareness, innovating our brands to take advantage of evolving consumer trends, improving distribution and increasing promotional effectiveness. We also focus on new distribution agreements for emerging, high-growth third party brands in new categories that can use our manufacturing and distribution network. We provide these new brands with distribution capability and resources to grow, and they provide us with exposure to growing segments of the market with relatively low risk and capital investment.

Execute with excellence. We are focused on improving our product presence in high margin brands, products and channels, such as convenience stores, vending machines and small independent retail outlets, through increased selling activity. We also intend to increase demand for high margin products like single-serve packages for many of our key brands through increased in-store activity.

Table of Contents

We believe our integrated brand ownership, manufacturing and distribution business model provides us opportunities for net sales and profit growth through the alignment of the economic interests of our brand ownership and our manufacturing and distribution businesses. We intend to continue leveraging our integrated business model to reduce costs by optimizing geographic manufacturing and distribution coverage and to be more flexible and responsive to the changing needs of our large retail customers by coordinating sales, service, distribution, promotions and product launches.

Strengthening our route-to-market will ensure the ongoing health of our brands. We continue to invest in information technology ("IT") to improve route productivity and data integrity and standards. With third party bottlers, we continue to deliver programs that maintain priority for our brands in their systems.

Rapid Continuous Improvement. In 2011, we adopted our Rapid Continuous Improvement ("RCI"), which uses Lean and Six Sigma methods to deliver customer value and improve productivity. We believe RCI is a means to achieve revenue and net income growth and increase the amount of cash returned to our stockholders.

OUR BUSINESS OPERATIONS

As of December 31, 2017, our operating structure consists of three reporting segments: Beverage Concentrates, Packaged Beverages and Latin America Beverages. Segment financial data for 2017, 2016 and 2015, including financial information about foreign and domestic operations, is included in Note 18 of the Notes to our Audited Consolidated Financial Statements.

Beverage Concentrates

Our Beverage Concentrates segment is principally a brand ownership business. In this segment we manufacture and sell beverage concentrates in the U.S. and Canada. Most of the brands in this segment are CSD brands. In 2017, our Beverage Concentrates segment had net sales of approximately $1,332 million. Key brands include Dr Pepper, Canada Dry, Crush, Schweppes, Sunkist soda, A&W, 7UP, Sun Drop, Squirt, RC Cola, Diet Rite, Vernors and the concentrate form of Hawaiian Punch.

Almost all of our beverage concentrates are manufactured at our plant in St. Louis, Missouri.

Beverage concentrates are shipped to third party bottlers, as well as to our own manufacturing systems, who combine them with carbonation, water, sweeteners and other ingredients, package the combined product in PET containers, glass bottles and aluminum cans, and sell them as a finished beverage to retailers. Beverage concentrates are also manufactured into syrup, which is shipped to fountain customers, such as fast food restaurants, who mix the syrup with water and carbonation to create a finished beverage at the point of sale to consumers. Dr Pepper represents most of our fountain channel volume. Concentrate prices historically have been reviewed and adjusted at least on an annual basis.

Our Beverage Concentrates brands are sold by our bottlers, including our own Packaged Beverages segment, through all major retail channels including supermarkets, fountains, mass merchandisers, club stores, vending machines, convenience stores, gas stations, small groceries, drug chains and dollar stores. Unlike the majority of our other CSD brands, 57% of Dr Pepper volumes are distributed through the Coca-Cola affiliated and PepsiCo affiliated bottler systems.

The PepsiCo affiliated and Coca-Cola affiliated bottler systems represent a small number of customers where the loss of any one or more of those customers would have a material adverse effect on the Beverage Concentrates segment.

Packaged Beverages

Our Packaged Beverages segment is principally a brand ownership, manufacturing and distribution business. In this segment, we primarily manufacture and distribute packaged beverages and other products, including our brands, third party owned brands and certain private label beverages, in the U.S. and Canada. In 2017, our Packaged Beverages segment had net sales of approximately $4,871 million. Key NCB brands in this segment include Snapple, Hawaiian Punch, Mott's, FIJI mineral water, Clamato, Bai, Yoo-Hoo, Deja Blue, ReaLemon, AriZona tea, Vita Coco coconut water, BODYARMOR, Mr and Mrs T mixers, Nantucket Nectars, Garden Cocktail, Mistic and Rose's. Key CSD brands in this segment include Dr Pepper, 7UP, Canada Dry, A&W, Sunkist soda, Squirt, RC Cola, Big Red, Vernors, Venom, IBC, Diet Rite and Sun Drop.

Approximately 82% of our 2017 Packaged Beverages net sales of branded products come from our own brands and our contract manufacturing. Contract manufacturing refers to the bottling of beverages for private label owners or others. The remaining portion of our 2017 Packaged Beverages net sales come from the distribution of third party brands such as FIJI mineral water, Big Red, BODYARMOR, Vita Coco coconut water, AriZona tea, CORE Hydration, Neuro drinks, Sunny Delight, High Brew, Hydrive energy drinks and Sparkling Fruit$_2$O. Although the majority of our Packaged Beverages net sales relate to our brands, we also provide a route-to-market for these third party brand owners seeking effective distribution for their new and emerging brands. These brands give us exposure in certain markets to fast growing segments of the beverage industry with minimal capital investment.

Our Packaged Beverages products are manufactured in multiple facilities across the U.S. and are sold or distributed to retailers and their warehouses by our own distribution network or by third party distributors. The raw materials used to manufacture our products include aluminum cans and ends, PET bottles and caps, glass bottles and closures, paper products, sweeteners, juices, water and other ingredients.

Table of Contents

We sell our Packaged Beverages products both through our Direct Store Delivery system ("DSD") and our Warehouse Direct delivery system ("WD"), both of which include the sales to all major retail channels, including supermarkets, fountains, mass merchandisers, club stores, vending machines, convenience stores, gas stations, small groceries, drug chains and dollar stores.

In 2017, Walmart, the largest customer of our Packaged Beverages segment, accounted for approximately 16% of our net sales in this segment.

Latin America Beverages

Our Latin America Beverages segment is a brand ownership, manufacturing and distribution business. This segment participates mainly in the carbonated mineral water, flavored CSD, bottled water and vegetable juice categories, with particular strength in carbonated mineral water, vegetable juice categories and grapefruit flavored CSDs. In 2017, our Latin America Beverages segment had net sales of $487 million, with our operations in Mexico representing approximately 90% of the net sales of this segment. Key brands in this segment include Peñafiel, Squirt, Aguafiel, Clamato and Crush.

In Mexico, we manufacture and distribute our products through our bottling operations and third party bottlers and distributors. In the Caribbean, we distribute our products through third party bottlers and distributors. We have also begun to distribute certain products in other international jurisdictions through various third party bottlers and distributors.

We sell our finished beverages through all major Mexican retail channels, including "mom and pop" stores, supermarkets, hypermarkets, convenience stores and on-premise channels.

In 2017, Walmart, the largest customer of our Latin America Beverages segment, accounted for approximately 12% of our net sales in this segment. Walmart and OXXO represent a small number of customers where the loss of one of those customers would have a material adverse effect on the Latin America Beverages segment.

BOTTLER AND DISTRIBUTOR AGREEMENTS

In the U.S. and Canada, we generally grant perpetual, exclusive licenses for CSD brands and packages to bottlers for specific geographic areas. Many of our brands, such as Snapple, Mistic, Nantucket Nectars, Yoo-Hoo and Orangina, are licensed for distribution in various territories to bottlers and a number of smaller distributors such as beer wholesalers, wine and spirit distributors, independent distributors and retail brokers. These agreements prohibit bottlers and distributors from selling the licensed products outside their exclusive territory and selling any imitative products in that territory. Generally, we may terminate bottling and distribution agreements only for cause, change in control or breach of agreements and the bottler or distributor may terminate without cause upon giving certain specified notice and complying with other applicable conditions. Fountain agreements for bottlers generally are not exclusive for a territory, but do restrict bottlers from carrying imitative product in the territory.

The following chart details the distribution sources of our total 288 fluid ounce cases sold in the U.S. in 2017:

Agreements with PepsiCo and Coca-Cola

In 2010, we completed the licensing of certain brands to PepsiCo and Coca-Cola. The agreements have an initial period of 20 years with automatic 20-year renewal periods and require PepsiCo, Coca-Cola and certain Coca-Cola affiliated bottlers to meet certain performance conditions.

CUSTOMERS

We primarily serve two groups of customers: 1) bottlers and distributors and 2) retailers.

Bottlers buy beverage concentrates from us and, in turn, they manufacture, bottle, sell and distribute finished beverages. Bottlers also manufacture and distribute syrup for the fountain foodservice channel. In addition, bottlers and distributors purchase finished beverages from us and sell them to retail and other customers. We have strong relationships with bottlers affiliated with Coca-Cola and PepsiCo primarily because of the strength and market position of our key Dr Pepper brand.

Retailers also buy finished beverages directly from us. Our portfolio of strong brands, operational scale and experience in the beverage industry has enabled us to maintain strong relationships with major retailers in the U.S., Canada and Mexico. In 2017, our largest retailer was Walmart, representing approximately 13% of our consolidated net sales.

SEASONALITY

The beverage market is subject to some seasonal variations. Our beverage sales are generally higher during the warmer months and also can be influenced by the timing of holidays as well as weather fluctuations.

COMPETITION

The LRB industry is highly competitive and continues to evolve in response to changing consumer preferences. Competition is generally based upon brand recognition, taste, quality, price, availability, selection and convenience. We compete with multinational corporations, such as Coca-Cola and PepsiCo, with significant financial resources. We also compete against other large companies, including Nestlé, S.A. ("Nestle"), Kraft Foods Group, Inc. ("Kraft Foods") and The Campbell Soup Company ("Campbell Soup"). These competitors can use their resources and scale to rapidly respond to competitive pressures and changes in consumer preferences by introducing new products, reducing prices or increasing promotional activities. As a bottler and manufacturer, we also compete with a number of smaller bottlers and distributors and a variety of smaller, regional and private label manufacturers, such as The Cott Corporation ("Cott"). Smaller companies may be more innovative, better able to bring new products to market and better able to quickly exploit and serve niche markets. Other bottlers and manufacturers could also expand their contract manufacturing. We also have exposure to some of the faster growing non-carbonated and bottled water segments in the overall LRB market. In Canada, Mexico and the Caribbean, we compete with many of these same international companies as well as a number of regional competitors.

Although these bottlers and distributors are our competitors, several of these companies are also our customers as they purchase beverage concentrates from us.

INTELLECTUAL PROPERTY AND TRADEMARKS

Our Intellectual Property. We possess a variety of intellectual property rights that are important to our business. We rely on a combination of trademarks, copyrights, patents and trade secrets to safeguard our proprietary rights, including our brands and ingredient and production formulas for our products.

Table of Contents

Our Trademarks. We own numerous trademarks in our portfolio within the U.S., Canada, Mexico and other countries. As of December 31, 2017, brands we own through various subsidiaries in various jurisdictions include, but are not limited to, Dr Pepper, Canada Dry, Peñafiel, Squirt, 7UP, Crush, A&W, Schweppes, RC Cola, Sun Drop, Venom, Snapple, Hawaiian Punch, Mott's, Bai, Clamato, Aguafiel, Deja Blue, ReaLemon, Mistic, Mr & Mrs T and Nantucket Nectars. We own trademark registrations for most of these brands in the U.S., and we own trademark registrations for some but not all of these brands in Canada, Mexico and other countries. We also own trademark registrations for a number of smaller regional brands. Some of our other trademark registrations are in countries where we do not currently have any significant level of business. Depending upon the jurisdiction, trademarks are valid as long as they are in use and/or their registrations are properly maintained. In addition, in many countries outside the U.S., Canada and Mexico, our rights to many of our CSD brands, including our Dr Pepper trademark and formula, were sold by Cadbury beginning over a decade ago to third parties including, in certain cases, to competitors such as Coca-Cola.

Trademarks Licensed from Others. We license various trademarks from third parties, which generally allow us to manufacture and distribute certain products or brands throughout the U.S. and/or Canada and Mexico. For example, we license from third parties the Sunkist soda, Stewart's, Rose's, Orangina and Margaritaville trademarks. Although these licenses vary in length and other terms, they generally are long-term, cover the entire U.S. and/or Canada and Mexico and generally include a royalty payment to the licensor.

Licensed Distribution Rights for our Allied Brands. We have rights in certain territories to bottle and/or distribute various brands we do not own. Some of these arrangements are relatively shorter in term and limited in geographic scope, and the licensor may be able to terminate the agreement upon an agreed period of notice, in a few cases without payment to us. As of December 31, 2017, our Allied Brand portfolio included, but was not limited to, the following brands:

Intellectual Property We License to Others. We license some of our intellectual property, including trademarks, to others, which enhances brand awareness. For example, we license the Dr Pepper trademark to certain companies for use in connection with food, confectionery and other products. We also license certain brands, such as Dr Pepper and Snapple, to third parties for use in beverages in certain countries where we own the brand but do not otherwise conduct business. We also have intellectual property related to licensing arrangements for certain brands, primarily Dr Pepper, with Coca-Cola affiliated and PepsiCo affiliated bottler systems and distribution routes.

MARKETING

Our marketing strategy is to grow our brands through continuously providing new solutions to meet consumers' changing preferences and needs. We identify these preferences and needs and then develop innovative consumer and shopper programs to address the opportunities. Solutions include new and reformulated products, improved packaging design, pricing and enhanced availability. We use advertising, sponsorships, merchandising, public relations, promotions and social media to provide maximum impact for our brands and messages. We also apply a marketing return on investment analysis to ensure we focus our marketing spend in a manner to drive profitable and sustainable growth in our key brands.

MANUFACTURING

As of December 31, 2017, we operated 22 manufacturing facilities across the U.S. and Mexico. Almost all of our CSD beverage concentrates are manufactured at a single plant in St. Louis, Missouri. Our manufacturing facilities consist of regional manufacturing facilities, with the capacity and capabilities to manufacture many brands and packages, facilities with particular capabilities that are dedicated to certain brands or products, and smaller bottling plants with a more limited range of packaging capabilities.

Table of Contents

We have a variety of production capabilities, including hot-fill, cold-fill and aseptic bottling processes, and we manufacture beverages in a variety of packaging materials, including aluminum, glass and PET cans and bottles and a variety of package formats, including single-serve and multi-serve packages and "bag-in-box" fountain syrup packaging.

In 2017, 92% of our manufactured volumes came from our brands and 8% from third party and private-label products. We also use third party manufacturers to package our products for us on a limited basis.

RAW MATERIALS

The principal raw materials we use in our business, which we commonly refer to as ingredients and packaging costs, are aluminum cans and ends, PET bottles and caps, glass bottles and closures, paper products, sweeteners, juice, fruit, water and other ingredients. These ingredients and packaging costs can fluctuate substantially. As it relates to our costs of sales, these costs make up a significant portion of our costs, as shown below.

In addition, we are significantly impacted by changes in fuel costs, which can also fluctuate substantially, due to the large truck fleet we operate in our distribution businesses.

Under many of our supply arrangements for these raw materials, the price we pay fluctuates along with certain changes in underlying commodities costs, such as aluminum in the case of cans, natural gas in the case of glass bottles, resin in the case of PET bottles and caps, corn in the case of sweeteners and pulp in the case of paperboard packaging. When appropriate, we mitigate the exposure to volatility in the prices of certain commodities used in our production process through the use of forward contracts and supplier pricing agreements. The intent of the contracts and agreements is to provide a certain level of short-term predictability in our operating margins and our overall cost structure, while remaining in what we believe to be a competitive cost position.

Manufacturing costs for our Packaged Beverages segment, where we manufacture and bottle finished beverages, are higher as a percentage of our net sales than our Beverage Concentrates segment, as the Packaged Beverages segment requires the purchase of a much larger portion of the ingredients and packaging. Although we have contracts with a relatively small number of suppliers, we have generally not experienced any difficulties in obtaining the required amount of raw materials.

RESEARCH AND DEVELOPMENT

Our research and development team is composed of scientists and engineers in the U.S. and Mexico who are focused on developing high quality products which have broad consumer appeal, can be sold at competitive prices and can be safely and consistently produced across a diverse manufacturing network. Our research and development team engages in activities relating to product development, microbiology, analytical chemistry, process engineering, sensory science, nutrition, knowledge management and regulatory compliance. We have particular expertise in flavors and sweeteners, which allows us to focus our research in areas of importance to the industry, such as new sweetener development. Refer to Note 2 of the Notes to our Audited Consolidated Financial Statements for further information.

INFORMATION TECHNOLOGY

We use a variety of IT systems and networks configured to meet our business needs. Our primary IT data center is hosted in Toronto, Canada by a third party provider. We also use a third party vendor for application support and maintenance, which is based in India and provides resources offshore and onshore.

EMPLOYEES

As of December 31, 2017, we employed approximately 21,000 employees.

In the U.S., we have approximately 17,000 full-time employees. We have union collective bargaining agreements covering approximately 4,500 full-time employees. Several agreements cover multiple locations. These agreements address working conditions as well as wage rates and benefits. In Mexico, we employ approximately 4,000 full-time employees, with approximately 3,000 employees party to collective bargaining agreements. We do not have a significant number of employees in Canada, the Caribbean or overseas.

We believe we have good relations with our employees.

Table of Contents

REGULATORY MATTERS

We are subject to a variety of federal, state and local laws and regulations in the countries in which we do business. Regulations apply to many aspects of our business, including our products and their ingredients, manufacturing, safety, labeling, transportation, recycling, advertising and sale. For example, our products and their manufacturing, labeling, marketing and sale in the U.S. are subject to various aspects of the Federal Food, Drug, and Cosmetic Act, the Federal Trade Commission Act, the Lanham Act, state consumer protection laws and state warning and labeling laws. Certain cities and municipalities within the U.S. have also passed various taxes on the distribution of sugar-sweetened and diet beverages, which are at different stages of enactment. In Canada and Mexico, the manufacture, distribution, marketing and sale of many of our products are also subject to similar statutes and regulations. Additionally, the government of Mexico enacted broad based tax reform, including a one peso per liter tax on the manufacturing of certain sugar-sweetened beverages.

We and our bottlers use various refillable and non-refillable, recyclable bottles and cans in the U.S. and other countries. Various states and other authorities require deposits, eco-taxes or fees on certain containers. Similar legislation or regulations may be proposed in the future at local, state and federal levels, both in the U.S. and elsewhere. In Mexico, the government has encouraged the soft drink industry to comply voluntarily with collection and recycling programs for plastic materials, and we are in compliance with these programs.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

In the normal course of our business, we are subject to a variety of federal, state and local environmental, health and safety laws and regulations. We maintain environmental, health and safety policies and a quality, environmental, health and safety program designed to ensure compliance with applicable laws and regulations. The cost of such compliance measures does not have a material financial impact on our operations.

AVAILABLE INFORMATION

Our web site address is www.drpeppersnapplegroup.com. Information on our web site is not incorporated by reference in this document. We make available, free of charge through this web site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC").

MARKET AND INDUSTRY DATA

The market and industry data in this Annual Report on Form 10-K is from IRi, an independent industry source, and is based on retail dollar sales and sales volumes in 2017. Although we believe that this independent source is reliable, we have not verified the accuracy or completeness of this data or any assumptions underlying such data. IRi is a marketing information provider, primarily serving consumer packaged goods manufacturers and retailers. We use IRi data as our primary management tool to track market performance because it has broad and deep data coverage, is based on consumer transactions at retailers, and is reported to us monthly. IRi data provides measurement and analysis of marketplace trends such as market share, retail pricing, promotional activity and distribution across various channels, retailers and geographies. Measured categories provided to us by IRi include CSDs, energy drinks, carbonated waters, non-alcoholic mixers and NCBs, including ready-to-drink teas, single-serve and multi-serve juice and juice drinks, sports drinks and still waters. IRi also provides data on other food items such as apple sauce. IRi data we present in this report is from IRi service, which compiles data based on scanner transactions in key retail channels, including grocery stores, mass merchandisers (including Walmart), drug chains, convenience stores and gas stations. However, this data does not include the fountain or vending channels, or small independent retail outlets, which together represent a meaningful portion of the U.S. LRB market and of our net sales and volume.

Table of Contents

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risks described below, which could materially affect our business, financial condition or future results. Any of the following risks, as well as other risks and uncertainties, could harm our business and financial condition.

RISKS RELATED TO THE PROPOSED TRANSACTION WITH KEURIG

Our stockholders may not approve the Transaction.

The completion of the Transaction requires the Stockholder Approvals and we can provide no assurance that all required approvals will be obtained.

The regulatory approvals and any other required approvals in connection with the Transaction may not be obtained on the proposed terms or on the anticipated schedule.

The completion of the Transaction will depend upon a number of conditions being satisfied, including, among others, obtaining all regulatory approvals required to complete the Transaction, including the expiration or early termination of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") and any required foreign regulatory approvals, and the absence of any injunction prohibiting the Transaction and absence of any legal requirements enacted by a court or other governmental entity since the date of the Merger Agreement that remain in effect prohibiting consummation of the Transaction. We can provide no assurance that all required approvals will be obtained on the anticipated schedule, or at all.

The waiting period with respect to the notifications filed under the HSR Act expires 30 calendar days after such filings, unless otherwise extended or terminated. The Federal Trade Commission ("FTC") or Department of Justice ("DOJ") may effectively extend the statutory waiting period by requesting additional information regarding the Transaction and its potential effects on competition. Also, at any time before or after completion of the Transaction, the FTC or the DOJ could act under the antitrust laws to prevent a substantial lessening of competition or the creation of a monopoly, including by seeking to enjoin completion of the Transaction or seeking divestiture of our or Keurig’s assets, businesses or product lines.

The annual meeting of our stockholders at which the Stockholder Approvals will be considered may take place before all of the required regulatory approvals have been obtained and before all conditions to such approvals, if any, are known. In this event, if the Stockholder Approvals are obtained, we and Maple Parent may subsequently agree to conditions without further seeking stockholder approval, even if such conditions could have an adverse effect on us, Maple Parent or the combined company, except as required by applicable law.

The closing of the Transaction is subject to many other conditions and if these conditions are not satisfied or waived, the Transaction will not be completed.

In addition to regulatory and other required approvals, the closing of the Transaction is subject to a number of conditions as set forth in the Merger Agreement that must be satisfied or waived, including the authorization of the listing on the NYSE of the Acquisition Shares and, with respect to DPS’s obligation to close, the securing of debt financing for the Transaction.

The closing of the Transaction is also dependent on the accuracy of representations and warranties made by the parties to the Merger Agreement (subject to customary materiality qualifiers and other customary exceptions), the performance in all material respects by the parties of obligations imposed under the Merger Agreement, the absence of a material adverse effect on Maple Parent or us, the receipt of officer certificates by the other party certifying the

satisfaction of the preceding conditions, receipt by Maple Parent of the tax opinion from McDermott Will & Emery LLP as to the tax treatment of the Transaction, and receipt by us of the solvency opinion from our solvency advisor. In addition, it is a condition to our obligation to close under the Merger Agreement that the total indebtedness (other than relating to capital leases) of KDP (formerly DPS), after giving effect to the Transaction and the financings related thereto, does not exceed $16.9 billion in the aggregate. There can be no assurance as to whether or when the conditions to the closing of the Transaction will be satisfied or waived or as to whether or when the Transaction will be consummated.

Any legal proceedings or governmental inquiries in connection with the Transaction, the outcomes of which are uncertain, could delay or prevent the completion of the Transaction.

In connection with the Transaction, plaintiffs may file lawsuits against DPS, Maple Parent and/or the directors and officers of either company. In addition, either company may face inquiries from governmental entities in connection with the Transaction. Although we believe any such lawsuits would be meritless, the outcome of such litigation or governmental inquiry is uncertain. Such legal proceedings or governmental inquiries could also prevent or delay the completion of the Transaction and result in additional costs to us.

Table of Contents

DPS stockholders will have a reduced ownership and voting interest after the Transaction and will exercise less influence over management. DPS stockholders currently have the right to vote in the election of the DPS Board and on other matters affecting DPS.

Upon the consummation of the Transaction, each DPS stockholder will remain a stockholder of DPS with a percentage ownership of KDP following the Transaction that is smaller than the stockholder's prior percentage ownership of DPS. It is currently expected that the former stockholders of DPS as a group immediately after the Transaction will own approximately 13% of the outstanding shares of common stock of KDP, on a fully diluted basis. Because of this, DPS stockholders will have less influence on the management and policies of KDP than they now have on the management and policies of DPS.

Also see "-KDP will meet the requirements to be a "controlled company" within the meaning of the rules of the NYSE and, as a result, will qualify for, and intends to rely on, exemptions from certain corporate governance standards, which limit the presence of independent directors on its board of directors or board committees."

Following the Transaction, the composition of the KDP Board will be different than the composition of the current DPS Board.

Upon consummation of the Transaction, the composition of the KDP Board will be different than the current DPS Board. The DPS Board currently consists of 9 directors. Upon the consummation of the Transaction, the KDP Board will consist of 12 members:

- eight directors will be appointed by Maple Parent's stockholders, including Keurig's current Chief Executive Officer;
- two directors will be appointed by DPS, including our current President and Chief Executive Officer; and
- two independent directors will be mutually agreed upon by Maple Parent and DPS.

This new composition of the board of directors of KDP may affect the future decisions of KDP.

KDP will meet the requirements to be a "controlled company" within the meaning of the rules of the NYSE and, as a result, will qualify for, and intends to rely on, exemptions from certain corporate governance standards, which limit the presence of independent directors on its board of directors or board committees.

Following the Transaction, approximately 87% of the outstanding common stock of KDP will be held by holders of the equity interests of Maple Parent, on a fully diluted basis, and approximately 13% will be held by the stockholders of DPS, on a fully diluted basis.

As a result, KDP will be a "controlled company" for purposes of Section 303A of the NYSE Listed Company Manual and will be exempt from certain governance requirements otherwise required by the NYSE. Under Section 303A, a company of which more than 50% of the voting power is held by an individual, a group or another company is a "controlled company" and is exempt from certain corporate governance requirements, including requirements that (1) a majority of the board of directors consist of independent directors, (2) compensation of officers be determined or recommended to the board of directors by a majority of its independent directors or by a compensation committee that is composed entirely of independent directors, and (3) director nominees be selected or recommended for selection by a majority of the independent directors or by a nominating/corporate governance committee composed solely of independent directors. Following the consummation of the Transaction, KDP will continue to have an audit committee that is composed entirely of independent directors.

As a result, the procedures for approving significant corporate decisions could be determined by directors who have a direct or indirect interest in such decisions and KDP's stockholders will not have the same protections afforded to stockholders of other companies that are required to comply with the independence rules of the NYSE.

The Merger Agreement may be terminated in accordance with its terms and the Transaction may not be consummated. The Merger Agreement contains provisions that restrict the ability of the DPS Board to pursue alternatives to the Transaction and to change its recommendation that DPS stockholders vote for the Stockholder Approvals. In specified circumstances, DPS could be required to pay Maple Parent a termination fee of up to $700 million.
The Merger Agreement may be terminated at any time prior to the Effective Time, whether before or after receipt of the approval of DPS' stockholders or the effectiveness of the Maple Parent stockholder consent or Merger Sub stockholder consent, by the mutual written consent of the parties, by either Maple Parent or DPS if stockholder or regulatory approvals are not obtained, or by Maple Parent or DPS in connection with certain breaches of the Merger Agreement by DPS or Maple Parent, respectively.

Table of Contents

If the Merger Agreement is terminated by DPS pursuant to accepting a superior acquisition proposal and entering into an alternative acquisition agreement, by Maple Parent if our Board changes its recommendation to stockholders to approve the issuance of the Acquisition Shares and amendment to the certificate of incorporation, or by either DPS or Maple Parent because the closing does not occur by October 29, 2018 and there is an acquisition proposal outstanding at the time of such termination and within twelve months of termination of the Merger Agreement DPS consummates or enters into an agreement with respect to an acquisition proposal, DPS shall pay to Maple Parent a termination fee in the amount of $700 million. If the Merger Agreement is terminated by DPS because Maple Parent is unable to obtain required financing on the terms required by the Merger Agreement, Maple Parent shall pay to DPS a reverse termination fee in the amount of $700 million.

Failure to consummate the Transaction could negatively impact DPS and its future operations.

If the Transaction is not consummated for any reason, DPS may be subjected to a number of material risks. The price of shares of DPS common stock may decline to the extent that its current market prices reflect a market assumption that the Transaction will be consummated. In addition, some costs related to the Transaction must be paid by DPS whether or not the Transaction is consummated. Furthermore, DPS may experience negative reactions from its stockholders, customers and employees in the event the Transaction is not consummated. Further, DPS' management would have committed time, financial and other resources to matters relating to the Transaction that could otherwise have been devoted to pursuing other beneficial opportunities for DPS.

In addition, if the Transaction is not completed, DPS could be subject to litigation related to any failure to complete the merger or related to any enforcement proceeding commenced against us to perform our obligations under the Merger Agreement. The materialization of any of these risks could materially and adversely impact our ongoing business.

DPS and Keurig will be subject to business uncertainties and certain operating restrictions until consummation of the Transaction.

Uncertainty about the effect of the Transaction on employees and customers may have an adverse effect on DPS, Keurig or KDP following the Transaction. These uncertainties could disrupt our business or the business of Keurig and cause customers, suppliers, vendors, partners and others that deal with us and Keurig to defer entering into contracts with us and Keurig or making other decisions concerning us and Keurig or seek to change or cancel existing business relationships with us and Keurig. Retention and motivation of certain employees may be challenging during the pendency of the Transaction due to uncertainty about their future roles and difficulty of integration. If key employees depart because of issues related to the uncertainty and difficulty of integration or a desire not to remain with KDP, KDP's business following the Transaction could be negatively impacted. In addition, the Merger Agreement restricts DPS from making certain acquisitions and investments and imposes certain other restrictions on the conduct of each party's business until the Transaction occurs without the consent of Keurig. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the Transaction.

The Merger Agreement contains restrictions on our ability to pursue other alternatives to the Transaction.

The Merger Agreement contains non-solicitation provisions that, subject to limited exceptions, restrict our ability to initiate, solicit, knowingly encourage, induce or assist any inquiries or the making, submission, announcement or consummation of, proposals or offers that constitutes or could reasonably be expected to lead to any acquisition proposal. Further, subject to limited exceptions, consistent with applicable law, the Merger Agreement provides that our board will not withhold, withdraw, qualify or modify (or publicly propose or resolve to withhold, withdraw, qualify or modify) in a manner adverse to Maple Parent its recommendation that our stockholders vote in favor of the

Stockholder Approvals. Although our Board is permitted to take certain actions in response to a superior proposal or an intervening event if it determines that the failure to do so would be reasonably likely to be inconsistent with its fiduciary duties, doing so in specified situations could require us to pay to Maple Parent the Termination Fee.

Such provisions could discourage a potential acquiror that might have an interest in making a proposal from considering or proposing any such transaction, even if it were prepared to pay consideration with a higher value to our stockholders than that to be paid in the Transaction. There also is a risk that the requirement to pay the termination fee or expense payment to Maple Parent in certain circumstances may result in a potential acquiror proposing to pay a lower per share price to acquire us than it might otherwise have proposed to pay.

If our due diligence investigation of Keurig was inadequate or if unexpected risks related to Keurig's business materialize, it could have a material adverse effect on our stockholders' investment.

Even though we conducted a due diligence investigation of Keurig, we cannot be sure that our diligence surfaced all material issues that may be present inside Keurig or its business, or that it would be possible to uncover all material issues through a customary amount of due diligence, or that factors outside of Keurig and its business and outside of its control will not arise later. If any such material issues arise, they may materially and adversely impact the on-going business of KDP and our stockholders' investment.

Table of Contents

RISKS RELATED TO THE BUSINESS OF THE COMBINED COMPANY

Expected combination benefits from the Transaction may not be fully-realized or realized within the expected time frame.

The ability of Keurig and DPS to realize the anticipated benefits of the Transaction will depend, to a large extent, on KDP's ability to combine Keurig's and DPS' businesses in a manner that facilitates growth opportunities and realizes anticipated synergies, and achieves the projected stand-alone cost savings and revenue growth trends identified by each company. It is expected that KDP will benefit from operational and general and administrative cost synergies resulting from the warehouse and transportation integration, direct procurement savings on overlapping materials, purchasing scale on indirect spend categories and optimization of duplicate positions and processes. KDP may also enjoy revenue synergies, driven by a strong portfolio of brands with exposure to higher growth segments and the ability to leverage our collective distribution strength. In order to achieve these expected benefits, KDP must successfully combine the businesses of Keurig and DPS in a manner that permits these cost savings and synergies to be realized and must achieve the anticipated savings and synergies without adversely affecting current revenues and investments in future growth. If KDP experiences difficulties with the integration process or is not able to successfully achieve these objectives, the anticipated benefits of the Transaction may not be realized fully or at all or may take longer to realize than expected.

The businesses of DPS and Keurig may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected. Operating costs, customer loss and business disruption, including difficulties in maintaining relationships with employees, customers, clients or suppliers, may be greater than expected following the transaction. Revenues following the transaction may be lower than expected.

The combination of two independent businesses is a complex, costly and time-consuming process. As a result, Keurig and DPS will be required to devote significant management attention and resources to combining their business practices and operations. This process may disrupt the businesses. The failure to meet the challenges involved in combining the two businesses and to realize the anticipated benefits of the transactions could cause an interruption of, or a loss of momentum in, the activities of KDP and could adversely affect the results of operations of KDP. The overall combination of Keurig's and DPS' businesses may also result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer and other business relationships and diversion of management attention. The difficulties of combining the operations of the companies include, among others:

- the diversion of management attention to integration matters;
- difficulties in integrating operations and systems, including intellectual property and communications systems;
- challenges in conforming standards, controls, procedures and accounting and other policies, business cultures and compensation structures between the two companies;
- difficulties in assimilating employees and in attracting and retaining key personnel;
- challenges in keeping existing customers and obtaining new customers;
- difficulties in achieving anticipated synergies, business opportunities and growth prospects from the combination;
- difficulties in managing the expanded operations of a significantly larger and more complex company;
- the transition of management of the combined company from DPS' executive management team to Keurig's executive management team who has limited experience with operating a LRB business;
- integrating the companies' financial reporting and internal control systems, including compliance by the combined company with Section 404 of the Sarbanes-Oxley Act of 2002, as amended, and the rules promulgated by the SEC;
- the impact of the additional debt financing expected to be incurred in connection with the Transaction;
- contingent liabilities that are larger than expected; and
-

potential unknown liabilities, adverse consequences and unforeseen increased expenses associated with the Transaction.

Many of these factors are outside of the control of Keurig and DPS and/or will be outside the control of KDP, and any one of them could result in increased costs, decreased expected revenues and diversion of management time and energy, which could materially impact the business, financial condition and results of operations of KDP. In addition, even if the operations of the businesses of Keurig and DPS are combined successfully, the full benefits of the Transaction may not be realized, including the synergies or sales or growth opportunities that are expected. These benefits may not be achieved within the anticipated time frame, or at all. Further, additional unanticipated costs may be incurred in combining the businesses of Keurig and DPS. All of these factors could cause dilution to the earnings per share of KDP, decrease or delay the expected accretive effect of the Transaction, and negatively impact the price of DPS common stock. As a result, it cannot be assured that the combination of Keurig and DPS will result in the realization of the full benefits anticipated from the Transaction within the anticipated time frames or at all.

Table of Contents

If a credit rating downgrade below investment grade were to occur, DPS may be required to purchase its outstanding notes and may be unable to do so.

DPS has a substantial amount of debt outstanding, comprised of various series of outstanding notes. These notes generally require DPS to offer to repurchase all outstanding senior unsecured notes of each series at 101% of the principal amount thereof plus, without duplication, accrued and unpaid interest, if any, to the date of repurchase should DPS undergo a change of control and receive a credit rating downgrade below investment grade. Because the Transaction will constitute a change of control of DPS, if any such series is rated below investment grade by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Financial Services LLC ("S&P") within the first 60 days following the effectiveness of the Transaction, DPS will be required to offer to repurchase all outstanding senior unsecured notes of each such series at 101% of the principal amount thereof plus, without duplication, accrued and unpaid interest, if any, to the date of repurchase. DPS may not have sufficient funds (including as a result of a failure to raise sufficient funds through the debt or equity markets) to finance a required repurchase of such senior unsecured notes by DPS. The failure to finance or complete such an offer would place DPS in default under the indentures governing the senior unsecured notes. Additionally, if there is increased volatility or a disruption in the global capital and credit markets, it could impair DPS's ability to access these markets for purposes of funding a required repurchase on commercially acceptable terms.

Maple Parent and DPS will incur direct and indirect costs as a result of the Transaction. Maple Parent and DPS will incur substantial expenses in connection with and as a result of consummating the Transaction.

A portion of the transaction costs related to the Transaction will be incurred regardless of whether the Transaction is consummated. While Maple Parent and DPS have assumed that a certain level of transaction expenses will be incurred, factors beyond Maple Parent's and DPS' control could affect the total amount or the timing of these expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately. These expenses may exceed the costs historically borne by Maple Parent and DPS. These costs could adversely affect the financial condition and results of operations of Maple Parent and DPS prior to the Transaction and of KDP following the Transaction.

The agreements that will govern the indebtedness to be incurred in connection with the Transaction may contain various covenants that impose restrictions on KDP and certain of its subsidiaries that may affect its ability to operate its businesses.

The agreements that will govern the indebtedness to be incurred in connection with the Transaction will contain various affirmative and negative covenants that may, subject to certain significant exceptions, restrict the ability of KDP and certain of its subsidiaries to incur debt and the ability of KDP and certain of its subsidiaries to, among other things, have liens on their property, and/or merge or consolidate with any other person or sell or convey certain of their assets to any one person, and engage in certain sale and leaseback transactions. The ability of KDP and its subsidiaries to comply with these provisions may be affected by events beyond their control. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could accelerate its repayment obligations and could result in a default and acceleration under other agreements containing cross-default provisions. Under these circumstances, KDP might not have sufficient funds or other resources to satisfy all of its obligations.

The Transaction will expose us to risks inherent in the coffee and appliances business, and risks inherent in those geographies where Keurig currently operates.

If consummated successfully, the Transaction would represent a significant transformation of our existing business. Upon completion of the Transaction, we would be subject to a variety of risks associated with the coffee and small

appliances business, in addition to those we already face in the LRB industry. These risks include changes in consumer preferences, volatility in the prices of raw materials, consumer perceptions of the brands, competition in the retail market place and other risks. In addition, we will be exposed to risks inherent in operating in geographies in which we have not operated in or have been less present in the past.

Table of Contents

RISKS RELATED TO OUR CURRENT DPS BUSINESS

We may not effectively respond to changing consumer preferences, trends, health concerns and other factors.
Consumers' preferences can change due to a variety of factors, including the age and ethnic demographics of the population, social trends, negative publicity, economic downturn or other factors. For example, consumers are increasingly concerned about health and wellness, focusing on the caloric intake associated with regular CSDs, the use of artificial sweeteners in diet CSDs and the use of natural, organic or simple ingredients in LRB products. As such, the demand for CSDs has decreased as consumers have shifted towards NCBs, such as water, ready-to-drink teas and sports drinks. If we do not effectively anticipate these trends and changing consumer preferences and quickly develop new products or partner with an allied brand in that category in response, then our sales could suffer. Developing and launching new products can be risky and expensive. We may not be successful in responding to changing markets and consumer preferences, and some of our competitors may be better able to respond to these changes, either of which could negatively affect our business and financial performance.
Our distribution agreements with our allied brands could be terminated.
Approximately 82% of our 2017 Packaged Beverages net sales of branded products came from our owned and licensed brands and our contract manufacturing, with the remaining from the distribution of third party brands such as, but not limited to, FIJI mineral water, Big Red, BODYARMOR, Vita Coco coconut water, AriZona tea, Core Hydration, Neuro drinks, High Brew, Hydrive energy drinks and Sparkling Fruit$_2$O. We are subject to a risk of our allied brands, terminating their distribution agreements with us, which could negatively affect our business and financial performance. Within each distribution agreement, we have certain protections in case the allied brands terminate the distribution agreements, including a one-time termination payment.
Costs for commodities, such as raw materials and energy, may change substantially.
The principal raw materials we use in our products are aluminum cans and ends, glass bottles, PET bottles and caps, paperboard packaging, sweeteners, juice, fruit, water and other ingredients. The cost of such raw materials can fluctuate substantially. Under many of our supply arrangements, the price we pay for raw materials fluctuates along with certain changes in underlying commodities costs, such as aluminum in the case of cans, natural gas in the case of glass bottles, resin in the case of PET bottles and caps, corn in the case of sweeteners and pulp in the case of paperboard packaging.
In addition, we use a significant amount of energy in our business. We are significantly impacted by changes in fuel costs due to the large truck fleet we operate in our distribution businesses and our use of third party carriers. Additionally, conversion of raw materials into our products for sale uses electricity and natural gas.
Price increases could exert pressure on our costs and we may not be able to effectively hedge or pass along any such increases to our customers or consumers. Price increases we pass along to our customers or consumers could reduce demand for our products. Such increases could negatively affect our business and financial performance. Furthermore, price decreases in commodities that we have effectively hedged could also increase our cost of goods sold for mark-to-market changes in the derivative instruments.
New or proposed beverage taxes or regulations could impact our sales.
Over the years, the federal, state and local governments of the U.S. and the federal government of Mexico have imposed or attempted to impose indirect taxes on the manufacturing and/or the distribution of certain sugar-sweetened beverages, which are commonly referred to as a "beverage tax" or "sugar tax". These regressive taxes were primarily the result of concerns about the public health consequences and health care costs associated with obesity. As federal, state and local governments in the U.S., and foreign governments experience significant budget deficits, some lawmakers continue to single out beverages among a number of revenue-raising items. As such, federal, state, and other local and foreign governments could continue to seek to impose a beverage or sugar tax. Additionally, local and regional governments and school boards have enacted, or have proposed to enact, regulations restricting the sale of certain types or sizes of soft drinks in municipalities and schools as a result of these concerns. Any changes of regulations or imposed taxes may reduce consumer demand for our products or could cause us to raise our prices, both of which could have a material adverse effect on our profitability and negatively affect our business and financial

performance.

If we do not successfully integrate and manage our acquired businesses or brands, our operating results may adversely be affected.

From time to time, we acquire businesses, such as Bai Brands, or brands to expand our beverage portfolio and distribution rights. We may incur unforeseen liabilities and obligations in connection with the acquisition, integration or management of the acquired businesses or brands and may encounter unexpected difficulties and costs in integrating them into our operating and internal control structures. We may also experience delays in extending our internal control over financial reporting to newly acquired businesses, which may increase the risk of failure to prevent misstatements in their financial records and in our consolidated financial statements. Our financial performance depends in large part on how well we can manage and improve the performance of acquired businesses or brands. We cannot assure you, however, that we will be able to achieve our strategic and financial objectives for such acquisitions. If we are unable to achieve such objectives, our consolidated results could be negatively affected.

We depend on third party bottling and distribution companies for a portion of our business.
Net sales from our Beverage Concentrates segment represent sales of beverage concentrates to third party bottling companies that we do not own. The Beverage Concentrates segment's operations generate a significant portion of our overall segment operating profit ("SOP"). Some of these bottlers, such as PepsiCo and Coca-Cola, are also our competitors. The majority of these bottlers' business comes from selling either their own products or our competitors' products. In addition, some of the products we manufacture are distributed by third parties. As independent companies, these bottlers and distributors make their own business decisions. They may have the right to determine whether, and to what extent, they produce and distribute our products, our competitors' products and their own products. They may devote more resources to other products or take other actions detrimental to our brands. In most cases, they are able to terminate their bottling and distribution arrangements with us without cause. We may need to increase support for our brands in their territories and may not be able to pass price increases through to them. Their financial condition could also be adversely affected by conditions beyond our control, and our business could suffer as a result. Deteriorating economic conditions could negatively impact the financial viability of third party bottlers. Any of these factors could negatively affect our business and financial performance.
We depend on a small number of large retailers for a significant portion of our sales.
Food and beverage retailers in the U.S. have been consolidating, resulting in large, sophisticated retailers with increased buying power. They are in a better position to resist our price increases and demand lower prices. They also have leverage to require us to provide larger, more tailored promotional and product delivery programs. If we and our bottlers and distributors do not successfully provide appropriate marketing, product, packaging, pricing and service to these retailers, our product availability, sales and margins could suffer. Certain retailers make up a significant percentage of our products' retail volume, including volume sold by our bottlers and distributors. Some retailers also offer their own private label products that compete with some of our brands. The loss of sales of any of our products by a major retailer could have a material adverse effect on our business and financial performance.
We operate in highly competitive markets.
The LRB industry is highly competitive and continues to evolve in response to changing consumer preferences. Competition is generally based upon brand recognition, taste, quality, price, availability, selection and convenience. Brand recognition can also be impacted by the effectiveness of our advertising campaigns and marketing programs, as well as our use of social media. We compete with multinational corporations with significant financial resources. Our two largest competitors in the LRB market are Coca-Cola and PepsiCo, which represent approximately 42.4% of the U.S. LRB market by retail sales according to IRi. We also compete against other large companies, including Nestle, Kraft Foods and Campbell Soup. These competitors can use their resources and scale to rapidly respond to competitive pressures and changes in consumer preferences by introducing new products, changing their route to market, reducing prices or increasing promotional activities. As a bottler and manufacturer, we also compete with a number of smaller bottlers and distributors and a variety of smaller, regional and private label manufacturers, such as Cott. Smaller companies may be more innovative, better able to bring new products to market and better able to quickly exploit and serve niche markets. We also compete for contract manufacturing with other bottlers and manufacturers. We have lower exposure to non-premium bottled water and ready-to-drink coffee compared to the overall LRB market. In Canada, Mexico and the Caribbean, we compete with many of these same international companies as well as a number of regional competitors.
If we are unable to compete effectively, our sales could decline. As a result, we would potentially reduce our prices or increase our spending on marketing, advertising and product innovation, which could negatively affect our business and financial performance.
Determinations in the future that a significant impairment of the value of our goodwill and other indefinite-lived intangible assets has occurred could have a material adverse effect on our results of operations.
As of December 31, 2017, we had $10,022 million of total assets, of which approximately $7,342 million were goodwill and other intangible assets. Intangible assets include both definite and indefinite-lived intangible assets in connection with brands, distribution rights and customer relationships. We conduct impairment tests on goodwill and all indefinite-lived intangible assets annually, as of October 1, or more frequently if circumstances indicate that the

carrying amount of an asset may not be recoverable. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. We recognized approximately $1 million in impairment charges for our Aguafiel brand based upon our annual impairment analysis performed as of October 1, 2017. For additional information about these intangible assets, see "Critical Accounting Estimates — Goodwill and Other Indefinite-Lived Intangible Assets" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Item 7 and Note 2 and Note 4 to our Audited Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data," in this Annual Report on Form 10-K.

Table of Contents

The impairment tests require us to make an estimate of the fair value of our reporting units and other intangible assets. An impairment could be recorded as a result of changes in assumptions, estimates or circumstances, some of which are beyond our control. Factors which could result in an impairment include, but are not limited to: (i) reduced demand for our products and/or the product category; (ii) higher commodity prices; (iii) lower prices for our products or increased marketing as a result of increased competition; (iv) significant disruptions to our operations as a result of both internal and external events; and (v) changes in our discount rates. Since a number of factors may influence determinations of fair value of intangible assets, we are unable to predict whether impairments of goodwill or other indefinite-lived intangibles will occur in the future. Any such impairment would result in us recognizing a non-cash charge in our Consolidated Statements of Income, which could adversely affect our results of operations and increase our effective tax rate.

Our total indebtedness, excluding capital lease obligations, could affect our operations and profitability.

We maintain levels of debt we consider prudent based on our actual and expected cash flows. As of December 31, 2017, our total indebtedness was $4,479 million.

This amount of debt could have important consequences to us and our investors, including requiring a portion of our cash flow from operations to make interest payments on this debt and increasing our vulnerability to general adverse economic and industry conditions, which could impact our debt maturity profile.

While we believe we will have the ability to service our debt and will have access to additional sources of capital in the future if and when needed, that will depend upon our results of operations and financial position at the time, the then-current state of the credit and financial markets, and other factors that may be beyond our control.

In assessing our credit strength, credit rating agencies consider our capital structure and financial policies as well as our results of operations and financial position at that time. If our credit ratings were to be downgraded as a result of changes in our capital structure, changes in the credit rating agencies' methodology in assessing our credit strength, the credit agencies' perception of the impact of credit market conditions on our current or future results of operations and financial position or for any other reason, our cost of borrowing could increase.

Fluctuations in foreign currency exchange rates in Mexico and Canada may adversely affect our operating results.

While our operations are predominately in the U.S., we are exposed to foreign currency exchange rate risk with respect to our sales, expenses, profits, assets and liabilities denominated in the Mexican peso or the Canadian dollar. We manage a small portion of our exposure to the Canadian dollar and Mexican peso for certain transactions utilizing derivative instruments and are not protected against most foreign currency fluctuations. As a result, our financial performance may be affected by changes in foreign currency exchange rates. Moreover, any favorable or unfavorable impacts to gross profit, gross margin, income from operations or segment operating profit from fluctuations in foreign currency exchange rates are likely to be inconsistent year over year.

We depend on key information systems and third party service providers.

We depend on key information systems to accurately and efficiently transact our business, provide information to management and prepare financial reports. We rely on third party providers for a number of key information systems and business processing services, including hosting our primary data center and processing various benefit-related accounting and transactional services. These systems and services are vulnerable to interruptions or other failures resulting from, among other things, natural disasters, terrorist attacks, software, equipment or telecommunications failures, processing errors, computer viruses, other security issues or supplier defaults. Security, backup and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures. Any disruption or failure of these systems or services could cause substantial errors, processing inefficiencies, security breaches, inability to use the systems or process transactions, loss of customers or other business disruptions, all of which could negatively affect our business and financial performance.

As cybersecurity attacks continue to evolve and increase, our information systems could also be penetrated or compromised by internal and external parties intent on extracting confidential information, disrupting business processes or corrupting information. These risks could arise from external parties or from acts or omissions of internal or service provider personnel. Such unauthorized access could disrupt our business and could result in the loss of assets, litigation, remediation costs, damage to our reputation and failure to retain or attract customers following such

an event, which could adversely affect our business.

Increases in our cost of benefits in the future could reduce our profitability.

Our profitability is substantially affected by costs for employee health care, pension and other retirement programs and other benefits. In recent years, these costs have increased significantly due to factors such as increases in health care costs, increases in participants enrolled, declines in investment returns on pension assets and changes in discount rates used to calculate pension and related liabilities. These factors plus the enactment of the Patient Protection and Affordable Care Act in March 2010 will continue to put pressure on our business and financial performance. Although we actively seek to control increases in costs, there can be no assurance that we will succeed in limiting future cost increases, and continued upward pressure in costs could have a material adverse effect on our business and financial performance.

Our financial results may be negatively impacted by recession, financial and credit market disruptions and other economic conditions.

Changes in economic and financial conditions in the U.S., Canada, Mexico or the Caribbean may negatively impact consumer confidence and consumer spending, which could result in a reduction in our sales volume and/or switching to lower price offerings. Similarly, disruptions in financial and credit markets worldwide may impact our ability to manage normal commercial relationships with our customers, suppliers and creditors. These disruptions could have a negative impact on the ability of our customers to timely pay their obligations to us, thus reducing our cash flow, or the ability of our vendors to timely supply materials. Additionally, these disruptions could have a negative effect on our ability to raise capital through the issuance of unsecured commercial paper or senior notes.

We could also face increased counterparty risk for our cash investments and our hedging arrangements. Declines in the securities and credit markets could also affect our marketable securities and pension fund, which in turn could increase funding requirements.

Litigation or legal proceedings could expose us to significant liabilities and damage our reputation.

We are party to various litigation claims and legal proceedings which may include employment, tort, real estate, commercial and other litigation. From time to time we are a defendant in class action litigation, including litigation regarding employment practices, product labeling, and wage and hour laws. Plaintiffs in class action litigation may seek to recover amounts which are large and may be indeterminable for some period of time. We evaluate litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and estimate, if possible, the amount of potential losses. We will establish a reserve as appropriate based upon assessments and estimates in accordance with our accounting policies. We base our assessments, estimates and disclosures on the information available to us at the time and rely on legal and management judgment. Actual outcomes or losses may differ materially from assessments and estimates. Costs to defend litigation claims and legal proceedings and the cost of actual settlements, judgments or resolutions of these claims and legal proceedings may negatively affect our business and financial performance. Any adverse publicity resulting from allegations made in litigation claims or legal proceedings may also adversely affect our reputation, which in turn could adversely affect our results of operations.

Certain raw materials we use are available from a limited number of suppliers and shortages could occur.

Some raw materials we use, such as aluminum cans and ends, glass bottles, PET bottles, sweeteners, fruit, juice and other ingredients, are sourced from industries characterized by a limited supply base. If our suppliers are unable or unwilling to meet our requirements, we could suffer shortages or substantial cost increases. Changing suppliers can require long lead times. The failure of our suppliers to meet our needs could occur for many reasons, including fires, natural disasters, weather, manufacturing problems, disease, crop failure, strikes, transportation interruption, government regulation, political instability, cybersecurity attacks and terrorism. A failure of supply could also occur due to suppliers' financial difficulties, including bankruptcy. Some of these risks may be more acute where the supplier or its plant is located in riskier or less-developed countries or regions. Any significant interruption to supply or cost increase could substantially harm our business and financial performance.

Substantial disruption to production at our manufacturing and distribution facilities could occur.

A disruption in production at our beverage concentrates manufacturing facility, which manufactures almost all of our concentrates, could have a material adverse effect on our business. In addition, a disruption could occur at any of our other facilities or those of our suppliers, bottlers or distributors. The disruption could occur for many reasons, including fire, natural disasters, weather, water scarcity, manufacturing problems, disease, strikes, transportation or supply interruption, government regulation, cybersecurity attacks or terrorism. Alternative facilities with sufficient capacity or capabilities may not be available, may cost substantially more or may take a significant time to start production, each of which could negatively affect our business and financial performance.

We may fail to comply with applicable government laws and regulations.

We are subject to a variety of federal, state and local laws and regulations in the U.S., Canada, Mexico and other countries in which we do business. These laws and regulations apply to many aspects of our business including the manufacture, safety, labeling, transportation, advertising and sale of our products. See "Regulatory Matters" in Item 1, "Business," of this Annual Report on Form 10-K for more information regarding many of these laws and regulations.

Violations of these laws or regulations in the manufacture, safety, labeling, transportation and advertising of our products could damage our reputation and/or result in regulatory actions with substantial penalties. In addition, any significant change in such laws or regulations or their interpretation, or the introduction of higher standards or more stringent laws or regulations, could result in increased compliance costs or capital expenditures. For example, changes in recycling and bottle deposit laws or special taxes on soft drinks or ingredients could increase our costs. Regulatory focus on the health, safety and marketing of food products is increasing. Certain federal or state regulations or laws affecting the labeling of our products, such as California's "Prop 65," which requires warnings on any product with substances that the state lists as potentially causing cancer or birth defects, are or could become applicable to our products.

Table of Contents

Weather, natural disasters, climate change legislation and the availability of water could adversely affect our business.
Unseasonable or unusual weather, natural disasters or long-term climate changes may negatively impact the demand for our products, our ability to produce our products and the price or availability of raw materials, energy and fuel. Unusually cool weather during the summer months may result in reduced demand for our products and have a negative effect on our business and financial performance.
There is growing political and scientific sentiment that increased concentrations of carbon dioxide and other greenhouse gases in the atmosphere are influencing global weather patterns ("global warming"). Concern over climate change, including global warming, has led to legislative and regulatory initiatives directed at limiting greenhouse gas ("GHG") emissions. For example, proposals that would impose mandatory requirements on GHG emissions continue to be considered by policy makers in the countries in which we operate. Laws enacted that directly or indirectly affect our production, distribution, packaging, cost of raw materials, fuel, ingredients and water could all negatively impact our business and financial results.
We also may be faced with water availability risks. Water is the main ingredient in substantially all of our products. Climate change may cause water scarcity and a deterioration of water quality in areas where we maintain operations. The competition for water among domestic, agricultural and manufacturing users is increasing in the countries where we operate, and as water becomes scarcer or the quality of the water deteriorates, we may incur increased production costs or face manufacturing constraints which could negatively affect our business and financial performance. Even where water is widely available, water purification and waste treatment infrastructure limitations could increase costs or constrain our operations.
Our products may not meet health and safety standards or could become contaminated.
We have adopted various quality, environmental, health and safety standards. However, our products may not meet these standards or could become contaminated. A failure to meet these standards or contamination could occur in our operations or those of our bottlers, distributors or suppliers. This could result in expensive production interruptions, recalls, liability claims and negative publicity. Moreover, negative publicity also could be generated from false, unfounded or nominal liability claims or limited recalls. Any of these failures or occurrences could negatively affect our business and financial performance.
Fluctuations in our effective tax rate may result in volatility in our operating results.
We are subject to income taxes in many U.S. and certain foreign jurisdictions. Income tax expense includes a provision for uncertain tax positions. At any one time, many tax years are subject to audit by various taxing jurisdictions. As these audits and negotiations progress, events may occur that change our expectation about how the audit will ultimately be resolved. As a result, there could be ongoing variability in our quarterly and/or annual tax rates as events occur that cause a change in our provision for uncertain tax positions. In addition, our effective tax rate in any given financial statement period may be significantly impacted by changes in the mix and level of earnings or by changes to existing accounting rules, tax regulations or interpretations of existing law. In addition, tax legislation may be enacted in the future, domestically or abroad, that impacts our effective tax rate.
We may not be able to renew collective bargaining agreements on satisfactory terms, or we could experience strikes.
As of December 31, 2017, approximately 7,500 of our employees, many of whom are at our key manufacturing locations, were covered by collective bargaining agreements. These agreements typically expire every three to four years at various dates. We may not be able to renew our collective bargaining agreements on satisfactory terms or at all. This could result in strikes or work stoppages, which could impair our ability to manufacture and distribute our products and result in a substantial loss of sales. The terms of existing or renewed agreements could also significantly increase our costs or negatively affect our ability to increase operational efficiency.
Our intellectual property rights could be infringed or we could infringe the intellectual property rights of others, and adverse events regarding licensed intellectual property, including termination of distribution rights, could harm our business.
We possess intellectual property that is important to our business. This intellectual property includes ingredient formulas, trademarks, copyrights, patents, business processes and other trade secrets. See "Intellectual Property and Trademarks" in Item 1, "Business," of this Annual Report on Form 10-K for more information. We and third parties,

including competitors, could come into conflict over intellectual property rights. Litigation could disrupt our business, divert management attention and cost a substantial amount to protect our rights or defend ourselves against claims. We cannot be certain that the steps we take to protect our rights will be sufficient or that others will not infringe or misappropriate our rights. If we are unable to protect our intellectual property rights, our brands, products and business could be harmed.

We also license various trademarks from third parties and license our trademarks to third parties. In some countries, other companies own a particular trademark which we own in the U.S., Canada or Mexico. For example, the Dr Pepper trademark and formula is owned by Coca-Cola in certain other countries. Adverse events affecting those third parties or their products could affect our use of these trademarks or negatively impact our brands.

Table of Contents

In some cases, we license products from third parties that we distribute. The licensor may be able to terminate the license arrangement upon an agreed period of notice, in some cases without payment to us of any termination fee. The termination of any material license arrangement could adversely affect our business and financial performance.

Our facilities and operations may require substantial investment and upgrading.

We have an ongoing program of investment and upgrading in our manufacturing, distribution and other facilities. We expect to incur significant costs to upgrade or keep up-to-date various facilities and equipment or restructure our operations, including closing existing facilities or opening new ones. If our investment and restructuring costs are higher than anticipated or our business does not develop as anticipated to appropriately utilize new or upgraded facilities, our costs and financial performance could be negatively affected.

We could lose key personnel or may be unable to recruit qualified personnel.

Our performance significantly depends upon the continued contributions of our executive officers and key employees, both individually and as a group, and our ability to retain and motivate them. Our officers and key personnel have many years of experience with us and in our industry and it may be difficult to replace them. If we lose key personnel or are unable to recruit qualified personnel, our operations and ability to manage our business may be adversely affected. We do not have "key person" life insurance for any of our executive officers or key employees.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

As of December 31, 2017, we owned or leased 154 office buildings, manufacturing facilities and principal distribution centers and warehouse facilities operating across the Americas. Our corporate headquarters are located in Plano, Texas, in a facility that we own.

The following table summarizes our significant properties by geography and by reportable segment:

	Packaged Beverages		Beverage Concentrates		Latin America Beverages		
	Owned	Leased	Owned	Leased	Owned	Leased	Total
United States:							
Office buildings[(1)]	1	9	1	—	—	—	11
Manufacturing facilities	12	5	1	—	—	—	18
Principal distribution centers and warehouse facilities	37	61	—	—	—	—	98
	50	75	2	—	—	—	127
Mexico and Canada:							
Office buildings	—	1	—	—	—	1	2
Manufacturing facilities	—	—	—	—	4	—	4
Principal distribution centers and warehouse facilities	—	—	—	—	4	17	21
	—	1	—	—	8	18	27
Total	50	76	2	—	8	18	154

(1) The office building owned by our Beverage Concentrates operating segment is our corporate headquarters located in Plano, Texas.

We believe our facilities in the U.S. and Mexico are well-maintained and adequate, that they are being appropriately utilized in line with past experience and that they have sufficient production capacity for their present intended purposes. The extent of utilization of such facilities varies based on seasonal demand for our products. It is not possible to measure with any degree of certainty or uniformity the productive capacity and extent of utilization of these facilities. We periodically review our space requirements, and we believe we will be able to acquire new space and facilities as and when needed on reasonable terms. We also look to consolidate and dispose or sublet facilities we no longer need, as and when appropriate.

ITEM 3. LEGAL PROCEEDINGS

We are occasionally subject to litigation or other legal proceedings relating to our business. See Note 15 of the Notes to our Audited Consolidated Financial Statements for more information related to commitments and contingencies, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

In the U.S., our common stock is listed and traded on the New York Stock Exchange under the symbol "DPS". Information as to the high and low sales prices of our stock for the two years ended December 31, 2017 and 2016, and the frequency and amount of dividends declared on our stock during these periods, is set forth in Item 6 and incorporated herein by reference.

As of February 8, 2018, there were approximately 12,000 stockholders of record of our common stock. This figure does not include a substantially greater number of beneficial holders whose shares are held of record in "street name."

The information that will be included under the principal heading "Equity Compensation Plan Information" in our definitive Proxy Statement for the Annual Meeting of Stockholders or on an amendment on Form 10-K/A, to be filed with the SEC, is incorporated herein by reference.

For the years ended December 31, 2017, 2016 and 2015, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act").

DIVIDEND POLICY

Our Board declared aggregate dividends of $2.32, $2.12 and $1.92 per share on outstanding common stock during the years ended December 31, 2017, 2016 and 2015, respectively.

We expect to return our excess cash flow to our stockholders from time to time through our share repurchase program described below or the payment of dividends. However, there can be no assurance that share repurchases will occur or future dividends will be declared and paid. Under the terms of the Merger Agreement, until the closing of the Transaction or the termination of the Merger Agreement, we are restricted to the quarterly dividend declared to be paid on April 12, 2018 and the special dividend to be paid upon consummation of the Transaction. Furthermore, during negotiation of the Transaction with Maple Parent, we suspended our share repurchase program and it remains suspended at this time under the terms of the Merger Agreement.

The share repurchase program and declaration and payment of future dividends, the amount of any such share repurchases or dividends and the establishment of record and payment dates for dividends, if any, are subject to final determination by our Board after its review of our then-current strategy and financial performance and position, among other things.

COMMON STOCK REPURCHASES

Our share repurchase activity for the quarter ended December 31, 2017 was as follows:

(in thousands, except per share data)

Period	Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [(1)]	Maximum Dollar Value of Shares that May Yet be Purchased Under Publicly Announced Plans or Programs [(1)]
October 1, 2017 – October 31, 2017	308	$ 86.96	308	$ 784,086
November 1, 2017 – November 30, 2017	597	85.60	597	732,988
December 1, 2017 – December 31, 2017	—	—	—	732,988
For the quarter ended December 31, 2017	905	86.06	905	

(1)

As of December 31, 2017, the Board has authorized us to repurchase an amount of up to $5 billion of our outstanding common stock. This authorization has no expiration date.

Table of Contents

COMPARISON OF TOTAL STOCKHOLDER RETURN

The following performance graph compares our cumulative total returns with the cumulative total returns of the Standard & Poor's 500 and a peer group index. The graph assumes that $100 was invested on December 31, 2012, with dividends reinvested quarterly.

Comparison of Total Returns
Assumes Initial Investment of $100

The Peer Group Index consists of the following companies: Coca-Cola, PepsiCo, Monster Beverage Corporation, Cott Corporation and National Beverage Corp. We believe that these companies help to convey an accurate assessment of our performance as compared to the industry.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical financial data for the years ended December 31, 2017, 2016, 2015, 2014 and 2013. All the selected historical financial data has been derived from our Audited Consolidated Financial Statements and is stated in millions of dollars except for per share information.

You should read this information along with the information included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our Audited Consolidated Financial Statements and the related Notes thereto included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
(in millions, except per share data)	2017	2016	2015	2014	2013
Statements of Income Data:					
Net sales	$6,690	$6,440	$6,282	$6,121	$5,997
Gross profit	3,995	3,858	3,723	3,630	3,498
Income from operations	1,388	1,433	1,298	1,180	1,046
Net income[5]	1,076	847	764	703	624
Basic earnings per share[1][5]	$5.91	$4.57	$4.00	$3.59	$3.08
Diluted earnings per share[1][5]	5.89	4.54	3.97	3.56	3.05
Dividends declared per share	2.32	2.12	1.92	1.64	1.52
Statements of Cash Flows Data:					
Cash provided by (used in):					
Operating activities[4]	$1,038	$961	$1,014	$1,033	$872
Investing activities[3]	(1,763)	(189)	(194)	(185)	(195)
Financing activities[2][4]	(907)	108	(137)	(758)	(886)

	As of December 31,				
(in millions)	2017	2016	2015	2014	2013
Balance Sheet Data:					
Goodwill and other intangible assets, net[3]	$7,342	$5,649	$5,651	$5,674	$5,682
Total assets[2]	10,022	9,791	8,869	8,265	8,191
Short-term borrowings and current portion of long-term obligations	79	10	507	3	66
Long-term obligations[2]	4,400	4,468	2,875	2,580	2,498
Other non-current liabilities	1,933	2,138	2,228	2,353	2,386
Total stockholders' equity	2,451	2,134	2,183	2,294	2,277

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(1) The weighted average number of shares of common stock outstanding used in the calculation of earnings per share ("EPS") was impacted by the repurchase and retirement of DPS common stock. For the years ended December 31, 2017, 2016, 2015, 2014 and 2013, we repurchased and retired 4.4 million shares, 5.7 million shares, 6.5 million shares, 6.8 million shares and 8.7 million shares, respectively.

(2) For the year ended December 31, 2016, financing activities, total assets, and long-term obligations were impacted by the issuance of senior unsecured notes with an aggregate principal amount of $1,550 million, which were issued in December 2016 in anticipation of the Bai Brands Merger.

(3) For the year ended December 31, 2017, investing activities and goodwill and other intangible assets, net were impacted as a result of the Bai Brands Merger. Refer to Note 3 of the Notes to our Audited Consolidated Financial Statements for additional information.

(4) For the years ended December 31, 2016, 2015, 2014 and 2013, excess tax benefits on stock based compensation were reclassified from financing activities to operating activities to conform to the current year presentation as a result of the adoption of Accounting Standards Update 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share Based Payment Accounting. Refer to Note 2 of the Notes to our Audited Consolidated Financial Statements for further information.

(5) For the year ended December 31, 2017, net income, basic earnings per share, and diluted earnings per share were impacted by the legislation commonly referred to as the Tax Cuts and Jobs Act of 2017. Refer to Note 5 of the Notes to our Audited Consolidated Financial Statements for further information.

Table of Contents

The following table summarizes the Company's information on net sales, gross profit, net income, earnings per share and other quarterly financial data by quarter for the years ended December 31, 2017 and 2016. This data, with the exception of the common stock prices, was derived from the Company's unaudited consolidated financial statements.

(in millions, except per share data) For the Year Ended December 31,	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017				
Net sales	$1,510	$1,797	$1,740	$1,643
Gross profit	903	1,079	1,033	980
Net income[(1)]	177	188	203	508
Earnings per common share — basic[(1)]	$0.97	$1.02	$1.12	$2.82
Earnings per common share — diluted[(1)]	0.96	1.02	1.11	2.81
Weighted average common shares outstanding — basic	183.4	183.2	181.4	180.1
Weighted average common shares outstanding — diluted	184.6	183.7	182.1	180.8
Dividend declared per share	$0.58	$0.58	$0.58	$0.58
Common stock price				
High	$98.17	$99.47	$93.77	$97.84
Low	89.06	89.88	87.28	81.70
2016				
Net sales	$1,487	$1,695	$1,680	$1,578
Gross profit	885	1,025	997	951
Net income	182	260	240	165
Earnings per common share — basic	$0.97	$1.40	$1.30	$0.90
Earnings per common share — diluted	0.96	1.39	1.29	0.90
Weighted average common shares outstanding — basic	187.6	185.7	184.8	183.6
Weighted average common shares outstanding — diluted	189.0	186.5	185.7	184.7
Dividend declared per share	$0.53	$0.53	$0.53	$0.53
Common stock price				
High	$95.87	$96.65	$98.80	$91.14
Low	87.18	86.03	89.45	81.05

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(1) Net income and basic and diluted earnings per share in the fourth quarter of the year ended December 31, 2017 were impacted by the legislation commonly referred to as the Tax Cuts and Jobs Act.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our Audited Consolidated Financial Statements and the related Notes thereto included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of various factors including the factors we describe under "Special Note Regarding Forward-Looking Statements", "Risk Factors" and elsewhere in this Annual Report on Form 10-K, including documents incorporated by reference.

References in the following discussion to "we", "our", "us", "DPS" or "the Company" refer to Dr Pepper Snapple Group, Inc. and all entities included in our Audited Consolidated Financial Statements.

The periods presented in this section are the years ended December 31, 2017, 2016 and 2015, which we refer to as "2017", "2016" and "2015", respectively.

The following discussion does not reflect the Company's expectations with respect to its business, operations and financial performance following the completion of the Transaction. The Transaction is expected to have a material effect on such business, operations and financial performance. Accordingly, past performance may not be indicative of expected future results.

OVERVIEW

We are a leading integrated brand owner, manufacturer and distributor of non-alcoholic beverages in the U.S., Canada and Mexico with a diverse portfolio of flavored (non-cola) CSDs and NCBs, including ready-to-drink teas, juices, juice drinks, water and mixers. Our brand portfolio includes popular CSD brands such as Dr Pepper, Canada Dry, Peñafiel, Squirt, 7UP, Crush, A&W, Sunkist soda and Schweppes, and NCB brands such as Snapple, Hawaiian Punch, Mott's, Clamato, Bai, Mr & Mrs T mixers and Rose's. Our largest brand, Dr Pepper, is a leading flavored CSD in the U.S. according to IRi. We have some of the most recognized beverage brands in North America, with significant consumer awareness levels and long histories that evoke strong emotional connections with consumers.

We operate as an integrated brand owner, manufacturer and distributor through our three segments. We believe our integrated business model strengthens our route-to-market and provides opportunities for net sales and profit growth through the alignment of the economic interests of our brand ownership and our manufacturing and distribution businesses through both our DSD system and our WD delivery system. Our integrated business model enables us to be more flexible and responsive to the changing needs of our large retail customers and allows us to more fully leverage our scale and reduce costs by creating greater geographic manufacturing and distribution coverage.

We operate primarily in the U.S., Mexico and Canada and we also distribute our products in the Caribbean. In 2017, 90% of our net sales were generated in the U.S., 7% in Mexico and the Caribbean and 3% in Canada.

UNCERTAINTIES AND TRENDS AFFECTING OUR BUSINESS

We believe the North American LRB market is influenced by certain key trends and uncertainties. Some of these items, such as increased health consciousness and changes in consumer preferences and economic factors, have created category headwinds for a number of our products during recent years. The key trends and uncertainties that could affect our business include:

- Changes in consumer preferences. We are impacted by shifting consumer demographics and needs. We believe marketing and product innovations that target fast growing population segments, such as the Hispanic community in the U.S., could drive market growth. Additionally, as more consumers are faced with a busy and on-the-go lifestyle, sales of single-serve beverages could increase, which typically have higher margins.
- Allied brand relationships. Allied brands could terminate their distribution agreements, primarily as a result of ownership changes of these brand companies.
- Volatility in the costs of raw materials. The costs of a substantial portion of the raw materials used in the beverage industry are dependent on commodity prices for resin, aluminum, diesel fuel, corn, apple juice concentrate, sucrose, natural gas and other commodities. We are also dependent on commodity prices for apples related to our applesauce production. Commodity price volatility has, from time to time, exerted pressure on industry margins and operating

results.

- Increased government regulation. Government agencies, as a result of concerns about the public health consequences and health care costs associated with obesity, have been proposing and, in some cases, enacting new taxes or regulations on sugar-sweetened and diet beverages. Any changes of regulations or imposed taxes could reduce demand and/or cause us to raise our prices.

Table of Contents

- Increased health consciousness. Consumers are increasingly becoming more concerned about health and wellness, focusing on caloric intake and sugar content in both regular CSDs and juices, the use of artificial sweeteners in diet CSDs and the use of natural, organic or simple ingredients in LRB products. We believe the main beneficiaries of this trend include bottled waters, naturally sweetened, low calorie drinks, all natural and organic beverages and ready-to-drink teas. Our completion of the Bai Brands Merger on January 31, 2017 will allow us to continue distribution and capture additional growth as a result of this key trend.
- Increased competition in the LRB market. A number of our competitors are large corporations with significant financial resources. These competitors can use their resources and scale to rapidly respond to competitive pressures and changes in consumer preferences by introducing new products, reducing prices or increasing promotional activities, which could reduce the demand for our products.
- Fluctuations in foreign exchange rates. We are exposed to foreign currency exchange rate variability in the expected future cash flows associated with certain third-party and intercompany transactions denominated in currencies other than our Mexican and Canadian entities' functional currencies. We use derivative instruments such as foreign exchange forward contracts to mitigate a portion of our exposure in these expected future cash flows to changes in foreign exchange rates. Significant changes in these exchange rates will impact our results of operations.
- Product and packaging innovation. We believe brand owners and bottling companies will continue to create new products and packages, such as beverages with new ingredients and new premium flavors and innovative convenient packaging, that address changes in consumer tastes and preferences.
- Changing retailer landscape. As retailers continue to consolidate, we believe retailers will support consumer product companies that can provide an attractive portfolio of products, a strong value proposition and efficient delivery.

Refer to Item 1A, "Risk Factors" of this Annual Report on Form 10-K for additional information about risks and uncertainties facing our Company.

SEASONALITY

The beverage market is subject to some seasonal variations. Our beverage sales are generally higher during the warmer months and also can be influenced by the timing of holidays as well as weather fluctuations.

SEGMENTS

As of December 31, 2017, we report our business in four operating segments:

- The Beverage Concentrates segment reflects sales of the Company's branded concentrates and syrup to third party bottlers primarily in the U.S. and Canada. Most of the brands in this segment are carbonated soft drink brands.
- The Packaged Beverages Excluding Bai segment reflects sales in the U.S. and Canada from the manufacture and distribution of finished beverages and other products, including sales of the Company's own brands and third party brands, through both DSD and WD.
- The Bai segment reflects sales of Bai Brands finished goods to third party distributors, primarily in the U.S., as net sales to the Packaged Beverages Excluding Bai segment are eliminated in consolidation. Refer to Note 3 of the Notes to our Audited Consolidated Financial Statements for further information regarding the impact of Bai Brands Merger on the Company's net sales presented in the Consolidated Statements of Income.
- The Latin America Beverages segment reflects sales in the Mexico, Caribbean, and other international markets from the manufacture and distribution of concentrates, syrup and finished beverages.

The Company has determined that Packaged Beverages Excluding Bai and Bai, which have been identified as operating segments, meet the aggregation criteria under U.S. GAAP. As such, these segments have been aggregated into one reportable segment, Packaged Beverages, based on similarities among the operating units including economic characteristics, the nature of the products and services, the nature of the production processes, the types or class of customer for their products and services, the methods used to distribute their products and services and the nature of the regulatory environment.

Table of Contents

VOLUME

In evaluating our performance, we consider different volume measures depending on whether we sell beverage concentrates or finished beverages.

Beverage Concentrates Sales Volume

In our Beverage Concentrates segment, we measure our sales volume in two ways: (1) "concentrate case sales" and (2) "bottler case sales." The unit of measurement for both concentrate case sales and bottler case sales equals 288 fluid ounces of finished beverage, the equivalent of 24 twelve ounce servings.

Concentrate case sales represent units of measurement for concentrates sold by us to our bottlers and distributors. A concentrate case is the amount of concentrate needed to make one case of 288 fluid ounces of finished beverage. It does not include any other component of the finished beverage other than concentrate. Our net sales in our concentrate businesses are based on our sales of concentrate cases.

Although net sales in our concentrate businesses are based on concentrate case sales, we believe that bottler case sales are also a significant measure of our performance because they measure sales of packaged beverages into retail channels.

Packaged Beverages and Latin America Beverages Sales Volume

In our Packaged Beverages and Latin America Beverages segments, we measure volume as case sales to customers. A case sale represents a unit of measurement equal to 288 fluid ounces of packaged beverage sold by us. Case sales include both our owned brands and certain brands licensed to and/or distributed by us.

Volume in Bottler Case Sales

In addition to sales volume, we measure volume in bottler case sales ("volume (BCS)") as sales of packaged beverages, in equivalent 288 fluid ounce cases, sold by us and our bottling partners to retailers and independent distributors. Our contract manufacturing sales are not included or reported as part of volume (BCS).

Bottler case sales and concentrates and packaged beverage sales volumes are not equal during any given period due to changes in bottler concentrates inventory levels, which can be affected by seasonality, bottler inventory and manufacturing practices and the timing of price increases and new product introductions.

Table of Contents

RESULTS OF OPERATIONS

Executive Summary - 2017 Financial Overview and Recent Developments

- Net income increased $229 million, driven primarily by the income tax benefits related to the impact of the recent federal tax law change and the adoption of the new accounting standard for stock-based compensation, partially offset by the impact of the Bai Brands Merger, losses on early extinguishment of debt completed during the second and third quarter of 2017, and the unfavorable comparison to the gain on the extinguishment of a multi-employer pension plan withdrawal liability recorded in the prior year.
- On December 22, 2017, the federal government enacted the legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). Under the TCJA, our U.S. federal statutory tax rate will be reduced from 35% to 21%, beginning in 2018, with some related business deductions and credits either reduced or eliminated. As a result, we have recognized an income tax benefit of $297 million, primarily driven by the revaluation of our deferred tax liabilities, which increased diluted earnings per share by $1.62 for the year ended December 31, 2017. Beginning in 2018, we believe our effective tax rate will be approximately 26%-27%.
- On January 31, 2017, we completed the Bai Brands Merger. For the year ended December 31, 2017, the primary impacts of the Bai Brands Merger decreased diluted earnings per share in total by $0.26.

The drivers of this change include:

The interest expense associated with the financing to complete the Bai Brands Merger, which decreased diluted earnings per share by $0.18 for the year ended December 31, 2017;

The operations of Bai Brands, which decreased diluted earnings per share by $0.17 for the year ended December 31, 2017;

The associated transaction and integration expenses, which decreased diluted earnings per share by $0.08 for the year ended December 31, 2017;

The gain on the step-acquisition of Bai Brands, which increased diluted earnings per share by $0.10 for the year ended December 31, 2017; and

Table of Contents

The $21 million benefit as a result of the renegotiation of a manufacturing contract acquired during the Bai Brands Merger, which increased diluted earnings per share by $0.07 for the year ended December 31, 2017.
The impact of the operations of Bai Brands includes:
The incremental profit margin benefit we experienced in the year ended December 31, 2017 as the brand owner for Bai Brands;
The acquired Bai Brands operations, which includes the shipments to third parties since the Bai Brands Merger, partially offset by the $9 million initial profit in stock adjustment recorded during the first quarter of 2017 related to Bai Brands inventories; and
The associated purchase accounting adjustments (refer to Note 3 of the Notes to our Audited Consolidated Financial Statements for further information).

- During the years ended December 31, 2017, 2016, and 2015, we repurchased 4.4 million, 5.7 million, and 6.5 million shares of our common stock, respectively, valued at approximately $399 million in 2017, $519 million in 2016, and $521 million in 2015.
- On January 5, 2018, the Company acquired a 5.4% equity interest in Core Organics LLC ("Core") for $18 million.
- On January 29, 2018, DPS and Keurig announced that the companies have entered into the Merger Agreement to create Keurig Dr Pepper, a new beverage company of scale with a portfolio of iconic consumer brands and expanded distribution capability to reach virtually every point-of-sale in North America. Under the terms of the Merger Agreement, which has been unanimously approved by our Board, DPS shareholders will receive $103.75 per share in a special cash dividend and retain their shares in DPS.
- During the first quarter of 2018, our Board declared a dividend of $0.58 per share, which will be paid on April 12, 2018, to shareholders of record as of March 21, 2018.

References in the financial tables to percentage changes that are not meaningful are denoted by "NM."
Year Ended December 31, 2017 Compared to Year Ended December 31, 2016
Consolidated Operations
The following table sets forth our consolidated results of operations for the years ended December 31, 2017 and 2016:

	For the Year Ended December 31,					
	2017		2016		Dollar	Percentage
(dollars in millions, except per share data)	Dollars	Percent	Dollars	Percent	Change	Change
Net sales	$6,690	100.0 %	$6,440	100.0 %	$ 250	4 %
Cost of sales	2,695	40.3	2,582	40.1	113	4
Gross profit	3,995	59.7	3,858	59.9	137	4
Selling, general and administrative expenses	2,556	38.2	2,329	36.2	227	10
Other operating (income) expense, net	(51)	(0.8)	(3)	—	(48)	NM
Income from operations	1,388	20.7	1,433	22.3	(45)	(3)
Interest expense	164	2.5	147	2.3	17	12
Loss on early extinguishment of debt	62	0.9	31	0.5	31	NM
Other income, net	(8)	(0.1)	(25)	(0.4)	17	NM
Provision for income taxes	95	1.4	434	6.7	(339)	(78)
Net income	1,076	16.1 %	847	13.2 %	229	27 %
Effective tax rate	8.1 %	NM	33.8 %	NM	NM	NM

Volume (BCS). Volume (BCS) increased 1% for the year ended December 31, 2017 compared with the year ended December 31, 2016. In the U.S. and Canada, volume was 1% higher, and in Mexico and the Caribbean, volume increased 3% compared with the prior year. Branded CSD volume was 1% higher, while NCB volume increased 4% over the prior year.

Table of Contents

In branded CSDs, Canada Dry increased 5% due to continued growth in the ginger ale category. Peñafiel increased 5% due to distribution gains, increased promotional activity and product innovation, partially offset by increased competition, in our Latin America Beverages segment, and Squirt increased 3%. Schweppes also grew by 3% due to continued growth in the ginger ale category. These increases were partially offset by a 2% decline in 7UP and a 2% decrease in A&W. Our other CSD brands were also 2% lower, led by Rockstar as a result of the loss of distribution rights beginning in April 2017. Dr Pepper was flat compared to the year ago period as increases in our fountain business were fully offset by declines in TEN and diet.

In branded NCBs, Bai increased 99% driven by the acquired Bai Brands shipments to third parties since the Bai Brands Merger and continued growth in our existing distribution as a result of distribution gains and product innovation. Our growth allied brands gained 40% due primarily to distribution gains for BODYARMOR, Core and Fiji, and product innovation for BODYARMOR. Clamato increased 3% compared with the year ago period. Mott's grew 1% as growth in our sauce products were partially offset by declines in juice. These increases were partially offset by a 3% decline in Snapple due to competitive headwinds, the de-emphasis on our value products, and lower promotional activity, partially offset by the launch of our new PET packaging for our 16 oz. bottles and the Takes 2 to Mango flavor innovation. Our other NCB brands were 4% lower compared to the prior period, led by Hawaiian Punch and AriZona.

Net Sales. Net sales increased $250 million, or approximately 4%, for the year ended December 31, 2017, compared with the year ended December 31, 2016. The primary drivers of the increase in net sales included:

- Increase in shipments, excluding the loss of the Rockstar distribution rights, which grew net sales by 2.0%;
- Favorable product and package mix, which increased net sales by 1.5%;
- $64 million of acquired Bai Brands shipments to third parties since the Bai Brands Merger, which raised net sales by 1.0%;
- Higher pricing and lower discounts as a result of a favorable comparison of the annual true-up of our estimated customer incentive liability, which increased net sales by 0.5%;
- Unfavorable segment mix, which reduced our net sales by 0.5%; and
- The loss of the Rockstar distribution rights, which lowered net sales by 0.5%.

Gross Profit. Gross profit increased $137 million, or approximately 4%, for the year ended December 31, 2017 compared with the year ended December 31, 2016. Gross margin was 59.7% for the year ended December 31, 2017 compared to the gross margin of 59.9% for the year ended December 31, 2016. The following drivers impacted the gross margin:

- Unfavorable product and package mix, which reduced our gross margin by 0.5%;
- Increase in our other manufacturing costs, which includes the impact of a $6 million default by a supplier of resin to our operations in Mexico, reduced our gross margin by 0.4%.
- The unfavorable change in our last-in, first-out ("LIFO") inventory provision, driven primarily by apples, combined with higher commodity costs, led by packaging, reduced our gross margin by 0.4%;
- Unfavorable foreign currency effects, which decreased our gross margin by 0.1%; and
- Increase in our gross margin of 0.7% related to the incremental profit margin benefit we experienced as a result of becoming the brand owner for Bai Brands and the acquired Bai Brands shipments to third parties since the Bai Brands Merger, partially offset by the $9 million initial profit in stock adjustment as a result of the Bai Brands Merger recorded during the first quarter of 2017;
- Favorable segment mix, which raised our gross margin by 0.2%;
- Higher pricing and lower discounts as a primary result of a favorable comparison of the annual true-up of our estimated customer incentive liability, which raised our gross margin by 0.2%; and
- Ongoing productivity improvements, which increased our gross margin by 0.2%.

Selling, General and Administrative Expenses. Selling, general and administrative ("SG&A") expenses increased $227 million for the year ended December 31, 2017 compared with the prior year. The primary driver of the increase in SG&A expenses was the impact of the Bai Brands Merger, which includes $114 million of acquired operating costs, primarily $59 million of marketing investments as well as people costs, and $20 million in transaction expenses.

Other drivers of the increase include higher people costs, driven by inflationary increases and additional frontline labor investment, a $31 million unfavorable comparison in the mark-to-market activity on commodity derivative contracts, and an $11 million increase in planned organic marketing investments. These increases were partially offset by lower incentive compensation.

Table of Contents

The unfavorable mark-to-market comparison on commodity derivative contracts within SG&A expenses, which is included in unallocated corporate costs, was driven by no unrealized gains or losses for the year ended December 31, 2017, versus $31 million in unrealized gains in the year ago period.

Other Operating (Income) Expense, Net. Other operating (income) expense, net had a favorable change of $48 million due primarily to the $28 million gain on the step-acquisition of Bai Brands and the $21 million benefit as a result of the renegotiation of a manufacturing contract acquired during the Bai Brands Merger. Refer to Note 3 of the Notes to our Audited Consolidated Financial Statements for further information.

Income from Operations. Income from operations decreased $45 million to $1,388 million for the year ended December 31, 2017, due primarily to the increase in SG&A expenses, partially offset by the increase in gross profit and the favorable change in other operating (income) expense, net.

Interest Expense. Interest expense increased $17 million for the year ended December 31, 2017 compared with the year ended December 31, 2016, due primarily to the higher average debt balance associated with the senior unsecured notes issued late in the fourth quarter of 2016 to fund the Bai Brands Merger, partially offset by interest savings associated with the tender offer for the 6.82% senior notes due May 1, 2018 ("2018 Notes") and the 7.45% senior notes due May 1, 2038 (the "2038 Notes") during the second quarter of 2017 and the redemption of the remaining 2018 Notes during the third quarter of 2017. These transactions were effectively refinanced by the issuance of other senior unsecured notes at a lower interest rate.

Loss on Early Extinguishment of Debt. In June 2017, we completed a tender offer on a portion of our 2038 Notes and 2018 Notes and retired, at a premium, an aggregate principal amount of $125 million of the 2038 Notes and $63 million of the 2018 Notes. The loss on early extinguishment of the 2038 and 2018 Notes was $49 million, which was comprised of $62 million for the tender offer consideration, the early tender premium and write off of deferred financing costs, partially offset by a $13 million gain on the termination of an interest rate swap related to the 2038 Notes.

In July 2017, we recognized a $13 million loss on early extinguishment of debt as we completed a redemption of our remaining 2018 Notes and retired, at a premium, an aggregate principal amount of $301 million of the 2018 Notes. The $13 million loss on early extinguishment of debt was comprised of the make-whole premium and write off of deferred financing costs.

In October 2016, we redeemed a portion of the 2018 Notes and retired, at a premium, an aggregate principal amount of approximately $360 million with the proceeds from the issuance of our 2.55% senior notes due on September 15, 2026 (the "2026 Notes"). The loss on early extinguishment of the 2018 Notes, which primarily represented the redemption premium, was approximately $31 million.

Other Income, Net. Other income, net decreased $17 million for the year ended December 31, 2017 compared with the year ended December 31, 2016 as a result of the unfavorable comparison to a $21 million gain on the extinguishment of a multi-employer pension plan withdrawal liability recorded in the prior year.

Effective Tax Rate. The effective tax rates for the year ended December 31, 2017 and 2016 were 8.1% and 33.8%, respectively. For the year ended December 31, 2017, the provision for income taxes included an income tax benefit of $297 million driven by the impact of the recent U.S. federal tax law change and an income tax benefit of $19 million due to the adoption of the new accounting standard for stock-based compensation. Refer to Note 5 and Note 2 of the Notes to our Audited Consolidated Financial Statements for further information on the impact of the recent federal tax law change and adoption of the new accounting standard. For the year ended December 31, 2016, the provision for income taxes included an income tax benefit of $17 million driven primarily by a restructuring of the ownership of our Canadian business.

Table of Contents

Results of Operations by Segment

The following tables set forth net sales and SOP for our segments for the years ended December 31, 2017 and 2016, as well as the other amounts necessary to reconcile our total segment results to our consolidated results presented in accordance with U.S. GAAP:

(in millions)	For the Year Ended December 31, 2017	2016
Segment Results — Net sales		
Beverage Concentrates	$1,332	$1,284
Packaged Beverages	4,871	4,696
Latin America Beverages	487	460
Net sales	$6,690	$6,440

(in millions)	For the Year Ended December 31, 2017	2016
Segment Results — SOP		
Beverage Concentrates	$865	$834
Packaged Beverages	691	771
Latin America Beverages	62	78
Total SOP	1,618	1,683
Unallocated corporate costs	281	253
Other operating (income) expense, net	(51)	(3)
Income from operations	1,388	1,433
Interest expense, net	161	144
Loss on early extinguishment of debt	62	31
Other income, net	(8)	(25)
Income before provision for income taxes and equity in (loss) earnings of unconsolidated subsidiaries	$1,173	$1,283

BEVERAGE CONCENTRATES

The following table details our Beverage Concentrates segment's net sales and SOP for the years ended December 31, 2017 and 2016:

(in millions)	For the Year Ended December 31, 2017	2016	Dollar Change	Percentage Change
Net sales	$1,332	$1,284	$ 48	4 %
SOP	865	834	31	4

Net Sales. Net sales increased $48 million for the year ended December 31, 2017, compared with the year ended December 31, 2016. The increase was due to higher pricing, a 2% increase in concentrate case sales and lower discounts primarily as a result of a favorable comparison of the annual true-up of our estimated customer incentive liability.

SOP. SOP increased $31 million for the year ended December 31, 2017, compared with the year ended December 31, 2016, primarily driven by an increase in net sales which was partially offset by higher SG&A expenses. The increase in SG&A expenses was primarily the result of a $13 million increase in marketing investments and higher people costs, partially offset by lower incentive compensation.

Volume (BCS). Volume (BCS) increased 1% for the year ended December 31, 2017, compared with the year ended December 31, 2016. Canada Dry and Schweppes had gains of 4% and 2%, respectively, due to continued growth in the ginger ale category for both brands and the sparkling water category for Canada Dry. These increases were partially offset by decreases in A&W and 7UP, which declined 2% and 1%, respectively, compared to the prior year. Our other brands declined 1% in total, primarily as a result of discontinuing the distribution of Country Time in 2016. Dr Pepper was flat compared to the prior year driven by increases in our fountain business fully offset by declines in TEN and diet.

PACKAGED BEVERAGES

The following table details our Packaged Beverages segment's net sales and SOP for the years ended December 31, 2017 and 2016:

	For the Year Ended December 31,		Dollar	Percentage
(in millions)	2017	2016	Change	Change
Net sales	$4,871	$4,696	$ 175	4 %
SOP	691	771	(80)	(10)

Volume. Branded CSD volumes were flat for the year ended December 31, 2017 compared with the year ended December 31, 2016. Canada Dry increased 5% due to continued growth in the ginger ale category. This increase was fully offset by a 2% decrease in 7UP, a 2% decline in A&W and a 2% decline in other CSD brands. Dr Pepper was flat as growth in regular was fully offset by declines in TEN and diet.

Branded NCB volumes increased 4% for the year ended December 31, 2017 compared with the year ended December 31, 2016. Bai increased 99% driven by the acquired Bai Brands shipments to third parties since the Bai Brands Merger and continued growth in our existing distribution as a result of distribution gains and product innovation. Our growth allied brands gained 40% due primarily to distribution gains for BODYARMOR, Core and Fiji, and product innovation for BODYARMOR. Mott's increased 1% compared to the prior year as growth in our sauce products was partially offset by declines in juice. Clamato increased 3%. These increases were partially offset as Snapple declined 3% due to competitive headwinds, the de-emphasis on our value products, and lower promotional activity partially offset by the launch of our new PET packaging for our 16 oz. bottles and the Takes 2 to Mango flavor innovation. Other NCB brands were 5% lower, led by Rockstar, AriZona and Hawaiian Punch. The decline in Rockstar is due to the loss of distribution rights beginning in April 2017.

Contract manufacturing increased 1% for the year ended December 31, 2017 compared with the year ended December 31, 2016.

Net Sales. Net sales increased $175 million for the year ended December 31, 2017 compared with the year ended December 31, 2016. Net sales increased due to favorable product and package mix, as a result of our NCBs, including our allied brands, $64 million in acquired Bai Brands shipments to third parties since the Bai Brands Merger, and higher organic sales volumes. These increases were partially offset by the loss of the Rockstar distribution.

SOP. SOP decreased $80 million for the year ended December 31, 2017, compared with the year ended December 31, 2016, as increases in SG&A expenses and cost of sales more than offset the increase in net sales.

Cost of sales increased as a primary result of higher costs associated with product and package mix, as a result of our NCBs, including our allied brands, and an increase in costs associated with the acquired Bai Brands shipments to third parties since the Bai Brands Merger and the initial $9 million profit in stock adjustment as a result of the Bai Brands Merger. Cost of sales was additionally impacted by the increase in other manufacturing costs and the unfavorable change in our LIFO inventory provision. These increases were partially offset by the incremental profit margin benefit we experienced as a result of becoming the brand owner for Bai Brands and ongoing productivity improvements.

SG&A expenses increased driven primarily by the Bai Brands Merger, which includes the acquired operating costs, primarily marketing and people costs, as well as transaction and integration expenses. SG&A expenses further increased due to higher people costs, driven by inflationary increases and additional frontline labor investment.

Table of Contents

LATIN AMERICA BEVERAGES

The following table details our Latin America Beverages segment's net sales and SOP for the years ended December 31, 2017 and 2016:

	For the Year Ended December 31,		Dollar	Percentage
(in millions)	2017	2016	Change	Change
Net sales	$487	$460	$ 27	6 %
SOP	62	78	(16)	(21)

Volume. Sales volume increased 3% for the year ended December 31, 2017 as compared with the year ended December 31, 2016. The increase in sales volume was primarily driven by a 5% increase in Peñafiel as a result of distribution gains, increased promotional activity and product innovation, partially offset by increased competition. Squirt had a 2% gain due to increased sales to third party bottlers and product innovation. Clamato increased 2% due to product innovation, distribution gains and increased promotional activity. Our other brands increased approximately 3%, driven by Crush.

Net Sales. Net sales increased $27 million for the year ended December 31, 2017 compared with the year ended December 31, 2016. Net sales increased as a result of increased sales volume and higher pricing, partially offset by unfavorable package and product mix, unfavorable foreign currency translation of $3 million and higher discounts.

SOP. SOP decreased $16 million for the year ended December 31, 2017 compared with the year ended December 31, 2016, driven by increases in cost of sales and SG&A expenses, partially offset by an increase in net sales.

Cost of sales increased compared to the prior year as a result of higher commodity costs, led by packaging, increased costs associated with gains in sales volume, unfavorable foreign currency effects and the $6 million default by a supplier of resin to our operations in Mexico during the third quarter of 2017. These increases were partially offset by favorable package and product mix.

SG&A expenses increased compared to the prior year as a result of higher people costs, increased logistic costs driven by higher rates and gains in sales volumes, and increases in other operating costs. These drivers were partially offset by the favorable comparison to the $4 million arbitration award related to our former Mexican joint venture in the prior year and favorable foreign currency effects.

The impact of the net unfavorable foreign currency effects on costs of sales and SG&A expenses, totaled $8 million.

Non-GAAP Financial Information

We report our financial results in accordance with U.S. GAAP. However, we believe that certain non-GAAP measures that reflect the way management evaluates the business may provide investors with additional information regarding our results, trends and ongoing performance on a comparable basis.

Core results is defined as reported results adjusted for the unrealized mark-to-market impact of commodity derivatives and interest rate derivatives not designated as hedges in accordance with U.S. GAAP and certain items that are excluded for comparison to prior year periods. Management believes that core results provide a comparable basis to evaluate our results period over period, which is also used as the basis for incentive compensation for our employees. The certain items excluded for the year ended December 31, 2017, are (i) the impact of transaction and integration expenses associated with the Bai Brands Merger and (ii) restructuring charges associated with a limited workforce reduction, which will primarily be paid during 2018.

For the Year Ended December 31, 2017				
Reported	Mark to Market	Workforce Reduction Costs	Transition and Integration Expenses	Core

Income from operations	$1,388	$ (23)	$ 3	$ 23	$1,391

Table of Contents

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Consolidated Operations

The following table sets forth our consolidated results of operations for the years ended December 31, 2016 and 2015:

	For the Year Ended December 31,					
	2016		2015		Dollar	Percentage
(dollars in millions, except per share data)	Dollars	Percent	Dollars	Percent	Change	Change
Net sales	$6,440	100.0 %	$6,282	100.0 %	$ 158	3 %
Cost of sales	2,582	40.1	2,559	40.7	23	1
Gross profit	3,858	59.9	3,723	59.3	135	4
Selling, general and administrative expenses	2,329	36.2	2,313	36.8	16	1
Other operating (income) expense, net	(3)	—	7	0.1	(10)	(143)
Income from operations	1,433	22.3	1,298	20.7	135	10
Interest expense	147	2.3	117	1.9	30	26
Loss on early extinguishment of debt	31	0.8	—	—	31	NM
Other income, net	(25)	(0.4)	(1)	—	(24)	NM
Income before provision for income taxes and equity in (loss) earnings of unconsolidated subsidiaries	1,283	19.9	1,184	18.8	99	NM
Provision for income taxes	434	6.7	420	6.7	14	3
Net income	847	13.2	764	12.2	83	11 %
Effective tax rate	33.8 %	NM	35.5 %	NM	NM	NM

Volume (BCS). Volume (BCS) increased 1% for the year ended December 31, 2016 compared with the year ended December 31, 2015. In the U.S. and Canada, volume was 1% higher, and in Mexico and the Caribbean, volume increased 5%, compared with the prior year. Both Branded CSD and NCB volume increased 1% compared to the prior year.

In branded CSDs, Squirt increased 6% primarily driven by increased sales to third-party bottlers and product innovation in our Latin America Beverages segment and our Hispanic strategy in the U.S. Schweppes grew 8% reflecting distribution gains in our sparkling water and growth in the ginger ale category. Dr Pepper had gains of 1% driven primarily by increases in our fountain business. Regular Dr Pepper increased compared to the prior year, which was partially offset by declines in diet. Peñafiel increased 3% in our Latin America Beverages segment as a result of distribution gains, increased promotional activity and product innovation, partially offset by increased competition. Crush grew 3% in the current year. These gains were partially offset by a 2% decline in our other CSD brands compared to the prior year. Canada Dry, 7UP, A&W and Sunkist soda (our "Core 4 brands") were flat compared to the prior year, driven by an 6% increase in Canada Dry fully offset by a 5% decline in 7UP, a 2% decrease in A&W and a 1% decline in Sunkist soda.

In branded NCBs, our water category increased 18% primarily due to incremental promotional activity behind Bai primarily in our club channel, distribution gains for Bai, Fiji and Core Hydration, and an increase in Aguafiel due to category growth in Mexico. Clamato increased 10% primarily due to increased promotional activity, distribution gains, and product innovation in our Latin America Beverages segment and increased promotional activity in the U.S.. These increases were partially offset by declines in Hawaiian Punch, Mott's and our other NCB brands in total. Hawaiian Punch declined 6% due to category headwinds and higher pricing for our single-serve packages while Mott's decreased 3% due to declines in the juice category and higher pricing for our single-serve packages, partially offset by gains in our sauce products. Our other NCB brands in total declined 8%. Snapple was flat compared to prior year.

Net Sales. Net sales increased $158 million, or approximately 3%, for the year ended December 31, 2016, compared with the year ended December 31, 2015. The primary drivers of the increase in net sales included:

- favorable product and package mix, which increased net sales by about 2.5%;
- increase in shipments, which increased net sales by 1.0%;
- higher pricing, which increased net sales by 1.0%;

- unfavorable foreign currency translation of $79 million, which decreased net sales by 1.0%; and
- unfavorable segment mix, which decreased net sales by 0.5%.

Table of Contents

Gross Profit. Gross profit increased $135 million, or approximately 4%, for the year ended December 31, 2016 compared with the year ended December 31, 2015. Gross margin was 59.9% for the year ended December 31, 2016 compared to the gross margin of 59.3% for the year ended December 31, 2015. The following drivers impacted the gross margin:

- favorable comparison in our mark-to-market activity on commodity derivative contracts, which increased our gross margin by 0.5%.
- lower commodity costs, led by packaging, and the change in our LIFO inventory provision, which increased our gross margin by 0.5%;
- increase in our net pricing, which increased our gross margin by 0.4%;
- ongoing productivity improvements, which increased our gross margin by 0.4%;
- unfavorable product, package and segment mix, which decreased our gross margin by 0.7%;
- unfavorable foreign currency effects, which decreased our gross margin by 0.3%; and
- increase in our other manufacturing costs, which decreased our gross margin by 0.2%.

The favorable mark-to-market activity on commodity derivative contracts for the year ended December 31, 2016 was $21 million in unrealized gains versus $13 million in unrealized losses in the prior year.

SG&A Expenses. SG&A expenses increased $16 million for the year ended December 31, 2016 compared with the prior year. The increase was primarily driven by higher people costs, a $4 million arbitration award related to our Mexican joint venture, increased professional fees, a non-recurring charge of $4 million related to the transition of a certain employee benefit program and increases in other miscellaneous expenses. These increases were partially offset by lower logistics costs, driven by fuel rates, the impact of favorable foreign currency effects, which decreased SG&A expenses by $27 million, and a $23 million favorable comparison in the mark-to-market activity on commodity derivative contracts. For the year ended December 31, 2016, we recognized $31 million in unrealized gains related to the mark-to-market activity on commodity derivative contracts versus $8 million in unrealized gains in the year ago period.

Other Operating (Income) Expense, Net. Other operating (income) expense, net had a favorable change of $10 million due primarily to the favorable comparison related to the brand value impairment of Garden Cocktail recognized in the prior year and a $7 million gain on the step-acquisition of Industria Embotelladora de Bebidas Mexicanas ("IEBM") and Embotelladora Mexicana de Agua, S.A. de C.V. ("EMA").

Income from Operations. Income from operations increased $135 million to $1,433 million for the year ended December 31, 2016, due primarily to the increase in gross profit, the favorable change in other operating (income) expense, net and the decrease in depreciation and amortization, driven by certain fully depreciated fixed assets. These drivers were partially offset by the increase in SG&A expenses.

Interest Expense. Interest expense increased $30 million for the year ended December 31, 2016 compared with the year ended December 31, 2015, primarily driven by:

- $12 million of mark-to-market activity recorded during the fourth quarter of 2016 for four derivative instruments, as the hedging relationships between the four outstanding interest rate swaps and our 2.70% senior notes due November 15, 2022 were de-designated on October 1, 2016;
- $5 million of amortization of deferred financing costs associated with the 364-day bridge loan facility (the "Bridge Facility");
- higher average debt balance and higher average interest rates attributable to the issuance of our 3.40% senior notes due November 15, 2025 (the "2025 Notes") and 4.50% senior notes due November 15, 2045 (the "2045 Notes") during the fourth quarter of 2015; and
- the issuance of the senior unsecured notes during the fourth quarter of 2016 for the Bai Brands Merger.

Loss on Early Extinguishment of Debt. In October 2016, we redeemed a portion of the 2018 Notes and retired, at a premium, an aggregate principal amount of approximately $360 million with the proceeds from the issuance of our 2.55% senior notes due on September 15, 2026 (the "2026 Notes"). The loss on early extinguishment of the 2018 Notes, which primarily represented the redemption premium, was approximately $31 million. There was no loss on

early extinguishment of debt in 2015.

Other Income, Net. Other income, net increased $24 million for the year ended December 31, 2016 compared with the year ended December 31, 2015 driven primarily by a $21 million gain on the extinguishment of a multi-employer pension plan withdrawal liability.

Table of Contents

Effective Tax Rate. The effective tax rates for the year ended December 31, 2016 and 2015 were 33.8% and 35.5%, respectively. For the year ended December 31, 2016, the provision for income taxes included an income tax benefit of $17 million driven primarily by a restructuring of the ownership of our Canadian business. The income tax benefit includes a valuation allowance release of $11 million.

Results of Operations by Segment

The following tables set forth net sales and SOP for our segments for the years ended December 31, 2016 and 2015, as well as the other amounts necessary to reconcile our total segment results to our consolidated results presented in accordance with U.S. GAAP:

(in millions)	For the Year Ended December 31, 2016	2015
Segment Results — Net sales		
Beverage Concentrates	$1,284	$1,241
Packaged Beverages	4,696	4,544
Latin America Beverages	460	497
Net sales	$6,440	$6,282

(in millions)	For the Year Ended December 31, 2016	2015
Segment Results — SOP		
Beverage Concentrates	$834	$807
Packaged Beverages	771	709
Latin America Beverages	78	88
Total SOP	1,683	1,604
Unallocated corporate costs	253	299
Other operating (income) expense, net	(3)	7
Income from operations	1,433	1,298
Interest expense, net	144	115
Loss on early extinguishment of debt	31	—
Other income, net	(25)	(1)
Income before provision for income taxes and equity in (loss) earnings of unconsolidated subsidiaries	$1,283	$1,184

BEVERAGE CONCENTRATES

The following table details our Beverage Concentrates segment's net sales and SOP for the years ended December 31, 2016 and 2015:

(in millions)	For the Year Ended December 31, 2016	2015	Dollar Change	Percentage Change
Net sales	$1,284	$1,241	$ 43	3 %
SOP	834	807	27	3

Net Sales. Net sales increased $43 million for the year ended December 31, 2016, compared with the year ended December 31, 2015. The increase was due to higher pricing, a 1% increase in concentrate case sales, favorable product mix and lower discounts. These drivers were partially offset by $3 million of unfavorable foreign currency translation.

The lower discounts were a result of a favorable comparison of the annual true-up of our estimated customer incentive liability partially offset by higher discounts driven by our fountain business.

Table of Contents

SOP. SOP increased $27 million for the year ended December 31, 2016, compared with the year ended December 31, 2015, driven primarily by an increase in net sales partially offset by higher SG&A expenses. The increase in SG&A expenses was the result of a $6 million increase in planned marketing investments, higher people costs and increases in other operating costs.

Volume (BCS). Volume (BCS) increased 1% for the year ended December 31, 2016, compared with the year ended December 31, 2015. Schweppes had gains of 8% driven by distribution gains in our sparkling water and growth in the ginger ale category. Dr Pepper increased 1%, driven primarily by our fountain business. Regular Dr Pepper increased compared to the prior year, which was partially offset by declines in diet. Our Core 4 brands grew 1% compared to the prior year as a result of a 6% increase in Canada Dry, partially offset by a 6% decrease in 7UP, a 3% decline in Sunkist soda and a 2% decrease in A&W. Crush increased 3% for the current year. These increases were partially offset by a 7% decline in our other brands.

PACKAGED BEVERAGES

The following table details our Packaged Beverages segment's net sales and SOP for the years ended December 31, 2016 and 2015:

(in millions)	For the Year Ended December 31, 2016	2015	Dollar Change	Percentage Change
Net sales	$4,696	$4,544	$ 152	3 %
SOP	771	709	62	9

Volume. Sales volume was flat for the year ended December 31, 2016 as compared with the year ended December 31, 2015 as increases in our branded NCB volumes were fully offset by declines in our branded CSD volumes and contract manufacturing.

Branded CSD volumes decreased 1% for the year ended December 31, 2016 compared with the year ended December 31, 2015. Volume for our Core 4 brands decreased 1%, led by a 4% decrease in 7UP, a 3% decrease in A&W and a 1% decline in Sunkist soda, partially offset by a 6% increase in Canada Dry. Our other CSD brands decreased 6%. The decreases were partially offset by a 5% gain in Squirt. Dr Pepper was flat compared to the prior year as increases in regular were fully offset by declines in diet.

Branded NCB volumes increased 2% for the year ended December 31, 2016 compared with the year ended December 31, 2015. Our water category increased 23% primarily due to distribution gains for Bai, Fiji and Core Hydration, and incremental promotional activity behind Bai primarily in our club channel. Clamato and Snapple increased 5% and 1%, respectively. Our other NCB brands increased 3%, led by Body Armor and Venom. These increases were partially offset by a 5% decline in Hawaiian Punch due to category headwinds and higher pricing for our single-serve packages and a 3% decrease in Mott's due to declines in the juice category and higher pricing for our single-serve packages, partially offset by gains in our sauce products.

Contract manufacturing decreased 3% for the year ended December 31, 2016 compared with the year ended December 31, 2015.

Net Sales. Net sales increased $152 million for the year ended December 31, 2016 compared with the year ended December 31, 2015. Net sales increased due to favorable product and package mix, as a result of our NCBs, including our allied brands, and higher pricing.

SOP. SOP increased $62 million for the year ended December 31, 2016, compared with the year ended December 31, 2015, as a result of an increase in net sales partially offset by increases in cost of sales and SG&A expenses. Cost of sales increased due to higher costs associated with product mix, as a result of our NCBs, including our allied brands, partially offset by lower commodity costs, led by packaging, and ongoing productivity improvements. SG&A expenses increased due primarily to higher people costs, increased planned marketing investments, a non-recurring charge of $4 million related to the transition of a certain employee benefit program and increases in other operating costs. These increases were partially offset by reductions in our logistics costs, driven primarily by lower fuel rates, and lower incentive compensation.

41

Table of Contents

LATIN AMERICA BEVERAGES
The following table details our Latin America Beverages segment's net sales and SOP for the years ended December 31, 2016 and 2015:

	For the Year Ended December 31,		Dollar	Percentage
(in millions)	2016	2015	Change	Change
Net sales	$460	$497	$ (37)	(7)%
SOP	78	88	(10)	(11)

Volume. Sales volume increased 5% for the year ended December 31, 2016 as compared with the year ended December 31, 2015. The increase in sales volume was primarily driven by a 7% gain in Squirt, due to increased sales to third party bottlers and product innovation. Peñafiel increased 3% as a result of distribution gains, increased promotional activity and product innovation, partially offset by increased competition. Clamato increased 20% due to increased promotional activity, distribution gains, and product innovation. Aguafiel and Crush increased 7% and 11%, respectively. Our other brands increased approximately 1%. These increases were partially offset by a decline in 7UP of 4%, driven by declines in Puerto Rico.
Net Sales. Net sales decreased $37 million for the year ended December 31, 2016 compared with the year ended December 31, 2015. Net sales decreased as a result of unfavorable foreign currency translation of $72 million, which was partially offset by increased sales volume and higher pricing.
SOP. SOP decreased $10 million for the year ended December 31, 2016 compared with the year ended December 31, 2015, driven by a decrease in net sales, partially offset by decreases in cost of sales and SG&A expenses. Cost of sales decreased in the current year primarily as a result of favorable foreign currency effects, ongoing productivity improvements, and lower commodity costs, led by sweeteners and packaging, which were partially offset by higher costs associated with increased sales volumes. SG&A expenses decreased in the current year primarily due to favorable foreign currency effects, which were partially offset by higher people costs, a $4 million arbitration award related to our former Mexican joint venture, increased professional fees, higher marketing investments, and increases in other operating costs. The impact of the favorable foreign currency effects, which decreased cost of sales and SG&A expenses, totaled $44 million.
LIQUIDITY AND CAPITAL RESOURCES
Trends and Uncertainties Affecting Liquidity
Customer and consumer demand for our products may be impacted by various risk factors discussed in Item 1A, "Risk Factors", including recession or other economic downturn in the U.S., Mexico and the Caribbean or Canada, which could result in a reduction in our sales volume. Similarly, disruptions in financial and credit markets may impact our ability to manage normal commercial relationships with our customers, suppliers and creditors. These disruptions could have a negative impact on the ability of our customers to timely pay their obligations to us, thus reducing our cash flow, or the ability of our vendors to timely supply materials.
We believe that the following events, trends and uncertainties may also impact liquidity:
- upon consummation of the Transaction, we will incur substantial third party indebtedness;
- our ability to issue unsecured commercial paper notes ("Commercial Paper") on a private placement basis up to a maximum aggregate amount outstanding at any time of $500 million, which has been limited to $200 million subject to Keurig's approval upon execution of the Merger Agreement;
- continued payment of dividends;
- continued capital expenditures;
- fluctuations in our tax obligations;
- seasonality of our operating cash flows could impact short-term liquidity;
- our integration of Bai Brands following completion of the Bai Brands Merger;

- future equity investments in allied brands; and
- future mergers or acquisitions of regional bottling companies, distributors and/or distribution rights to further extend our geographic coverage.

Table of Contents

Financing Arrangements

Refer to Note 7 of the Notes to our Audited Consolidated Financial Statements for management's discussion of financing arrangements.

Liquidity

Based on our current and anticipated level of operations, without giving effect to the Transaction, we believe that our operating cash flows and cash on hand will be sufficient to meet our anticipated obligations for the next twelve months. To the extent that our operating cash flows are not sufficient to meet our liquidity needs, we may utilize amounts available under our financing arrangements, if necessary.

The following table summarizes our cash activity for the years ended December 31, 2017, 2016 and 2015:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Net cash provided by operating activities	$1,038	$961	$1,014
Net cash used in investing activities	(1,763)	(189)	(194)
Net cash provided by (used in) financing activities	(907)	108	(137)

NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities increased $77 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to the impact of certain reconciling adjustments to net cash provided by operating activities, partially offset by a unfavorable change in working capital.

Net cash provided by operating activities decreased $53 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015, primarily due to our $35 million multi-employer pension plan settlement payment.

NET CASH USED IN INVESTING ACTIVITIES

2017

Cash used in investing activities for the year ended December 31, 2017 consisted primarily of cash paid in connection with our Bai Brands Merger of $1,556 million and purchases of property, plant and equipment of $202 million.

2016

Cash used in investing activities for the year ended December 31, 2016 consisted primarily of purchases of property, plant and equipment of $180 million, the step acquisition of IEBM and EMA of $15 million and an additional investment in BA Sports Nutrition, LLC ("BA Sports") of $6 million, partially offset by cash received in the step acquisition of IEBM and EMA of $17 million.

2015

Cash used in investing activities for the year ended December 31, 2015 consisted primarily of purchases of property, plant and equipment of $179 million and investments in BA Sports and Bai Brands of $20 million and $15 million, respectively, partially offset by $20 million of proceeds from disposals of property, plant and equipment.

Table of Contents

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

2017

Net cash used in financing activities for the year ended December 31, 2017 primarily consisted of:

- the repayment of the Company's 2018 Notes and a portion of the 2038 Notes of $562 million, which includes both the aggregate principal amounts of approximately $364 million of the 2018 Notes and $125 million of the 2038 Notes, as well as the tender offer premium of $60 million and the make whole premium of $13 million;
- dividend payments of $414 million; and
- stock repurchases of $399 million; which was partially offset by
- the proceeds from the issuance of our 3.43% Senior Notes due June 15, 2027 (the "2027 Notes") and our 4.50% Senior Notes due November 15, 2045 (the "2045 Notes"), with an aggregate principal amount of $400 million and a premium of $16 million; and
- the proceeds from the net issuance of commercial paper of $66 million.

2016

Net cash provided by financing activities for the year ended December 31, 2016 primarily consisted of proceeds from our issuances of senior unsecured notes, partially offset by stock repurchases of $519 million and dividend payments of $386 million, the repayment at maturity of our 2.90% Notes due January 15, 2016 of $500 million, and our partial redemption of our 2018 Notes, which included $360 million for principal repayments and $31 million related to the redemption premium.

On September 16, 2016, we completed the issuance of $400 million aggregate principal amount of our 2026 Notes. On December 14, 2016, we issued an additional $1,550 million of senior unsecured notes consisting of $250 million aggregate principal amount of our 2.53% Senior Notes due November 15, 2021, 3.13% aggregate principal amount of our 3.13% Senior Notes due December 15, 2023, $500 million aggregate principal amount of our 2027 Notes, and $400 million aggregate principal amount of our 4.42% Senior Notes due December 15, 2046.

2015

Net cash used in financing activities for the year ended December 31, 2015 primarily consisted of stock repurchases of $521 million and dividend payments of $355 million, largely offset by proceeds from our issuance of senior unsecured notes.

On November 9, 2015, we completed the issuance of two tranches of senior unsecured notes, consisting of $500 million aggregate principal amount of our 3.40% Senior Notes due November 15, 2025 and $250 million aggregate principal amount of our 2045 Notes.

Debt Ratings

As of December 31, 2017, our debt ratings were as follows:

Rating Agency	Long-Term Debt Rating[1]	Commercial Paper Rating	Outlook	Date of Last Change
Moody's	Baa1	P-2	Stable	May 18, 2011
S&P	BBB+	A-2	Stable	November 13, 2013

(1) Subsequent to December 31, 2017, and as a result of the Transaction, Moody's and S&P have changed their outlook. Moody's has placed DPS ratings under review for downgrade and S&P has placed DPS as Creditwatch Negative.

These debt and commercial paper ratings impact the interest we pay on our financing arrangements. A downgrade of one or both of our debt and commercial paper ratings could increase our interest expense and decrease the cash available to fund anticipated obligations.

Capital Expenditures

Capital expenditures were $202 million, $180 million, and $179 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Capital expenditures for the year ended December 31, 2017 primarily related to machinery and equipment, building and improvements, IT investments, replacement of existing cold drink equipment, and our distribution fleet.

44

Table of Contents

Capital expenditures for the year ended December 31, 2016 primarily related to machinery and equipment, our distribution fleet, and costs associated with a new manufacturing plant in Mexico.
Capital expenditures for the year ended December 31, 2015 primarily related to machinery and equipment including production improvements in our Mexico facilities, distribution fleet and buildings and improvements.

Cash and Cash Equivalents

As a result of the above items, cash, cash equivalents, restricted cash and restricted cash equivalents decreased $1,629 million since December 31, 2016 to $158 million as of December 31, 2017 primarily driven by the Bai Brands Merger.
Our cash balances are used to fund working capital requirements, scheduled debt and interest payments, capital expenditures, income tax obligations, dividend payments and repurchases of our common stock. Cash generated by our foreign operations is generally repatriated to the U.S. periodically except when required to fund working capital requirements in those jurisdictions. Foreign cash balances were $46 million and $51 million as of December 31, 2017 and 2016, respectively. We accrue tax costs for repatriation, as applicable, as cash is generated in those foreign jurisdictions.

Acquisitions and Investments

We have shown a disciplined approach to strategic investments in certain allied brands to enhance our position in premium and high growth categories and strengthen our existing distribution partnerships. On January 31, 2017, we completed the Bai Brands Merger. Refer to Note 3 of the Notes to our Audited Consolidated Financial Statements for additional information on the Bai Brands Merger, other acquisitions and investments in unconsolidated subsidiaries.
We may continue to make future equity investments in allied brands and/or acquisitions of regional bottling companies, distributors and/or distribution rights to further extend our geographic coverage. Any acquisitions may require additional funding for future capital expenditures and possibly restructuring expenses. Refer to Note 20 of the Notes to our Audited Consolidated Financial Statements for additional information on our subsequent investment in Core.

Total Shareholder Distributions

Our Board declared aggregate dividends per share during the years ended December 31, 2017, 2016 and 2015 of $2.32, $2.12 and $1.92, respectively, and we continued common stock repurchases based upon authorizations from our Board. The following chart details these payments during the years ended December 31, 2017, 2016 and 2015. Refer to Part II, Item 5 "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" of this Annual Report on Form 10-K for additional information regarding these repurchases.

Table of Contents

Contractual Commitments and Obligations

We enter into various contractual obligations that impact, or could impact, our liquidity. Based on our current and anticipated level of operations, we believe that our proceeds from operating cash flows and cash on hand will be sufficient to meet our anticipated obligations. To the extent that our operating cash flows and cash on hand are not sufficient to meet our liquidity needs, we may utilize amounts available under our financing arrangements, if necessary. Refer to Note 7 of the Notes to our Audited Consolidated Financial Statements for additional information regarding the senior unsecured notes payments described in this table.

The following table summarizes our contractual obligations and contingencies as of December 31, 2017:

		Payments Due in Year					
(in millions)	Total	2018	2019	2020	2021	2022	After 2022
Senior unsecured notes[1]	$4,225	$—	$250	$250	$500	$250	$2,975
Commercial paper	66	66	—	—	—	—	—
Bai Brands Merger consideration[2]	7	7	—	—	—	—	—
Capital leases[3]	220	24	24	23	22	22	105
Operating leases[4]	260	39	35	31	28	23	104
Purchase obligations[5][6]	1,002	645	159	96	36	28	38
Interest payments[7]	1,986	141	142	135	134	117	1,317
Payable to Mondelēz International, Inc.	22	6	16	—	—	—	—
Total	$7,788	$928	$626	$535	$720	$440	$4,539

(1) Amounts represent payment for the senior unsecured notes issued by us. Please refer to Note 7 of the Notes to our Audited Consolidated Financial Statements for further information.

(2) Amount represents consideration for the Bai Brands Merger held in the holdback liability that is fixed in amount and timing. Please refer to Note 3 of the Notes to our Audited Consolidated Financial Statements for further information.

(3) Amounts represent our contractual payment obligations for our lease arrangements classified as capital leases. These amounts exclude renewal options not yet executed but were included in the lease term to determine the capital lease obligation as the lease imposes a penalty on us in such amount that the renewal appeared reasonably assured at lease inception.

(4) Amounts represent minimum rental commitments under non-cancelable operating leases.

(5) Amounts represent payments under agreements to purchase goods or services that are legally binding and that specify all significant terms, including capital obligations and long-term contractual obligations. Long-term contractual obligations include, but are not limited to, commodity commitments and marketing commitments including sponsorships. Amounts exclude any gain or loss upon settlement of commodity derivative instruments. Refer to Note 8 of the Notes to our Audited Consolidated Financial Statements for further information.

(6) Subsequent to December 31, 2017, we executed a new arrangement that committed us to $253 million of additional purchase obligations over a six year term beginning in 2020.

(7) Amounts represent our estimated interest payments based on specified interest rates for fixed rate debt and the impact of interest rate swaps that effectively convert fixed interest rates to variable interest rates. Amounts exclude any gain or loss upon settlement of related interest rate swaps. Refer to Note 8 of the Notes to our Audited Consolidated Financial Statements for further information.

Amounts excluded from our table

As of December 31, 2017, we had $10 million of non-current unrecognized tax benefits, related interest and penalties classified as a long-term liability. The table above does not reflect any payments related to these amounts as it is not possible to make a reasonable estimate of the amount or timing of the payment. Refer to Note 5 of the Notes to our Audited Consolidated Financial Statements for further information.

The total accrued benefit liability representing the underfunded position for pension and other postretirement benefit plans recognized as of December 31, 2017 was approximately $17 million. This amount is impacted by, among other items, funding levels, plan amendments, changes in plan assumptions and the investment return on plan assets. We did not include estimated payments related to our total accrued benefit liability in the table above.

The Pension Protection Act of 2006 was enacted in August 2006 and established, among other things, new standards for funding of U.S. defined benefit pension plans. We generally expect to fund all future contributions with cash flows from operating activities. Our international pension plans are generally funded in accordance with local laws and income tax regulations. We did not include our estimated contributions to our various single employer plans in the table above.

Refer to Note 6 of the Notes to our Audited Consolidated Financial Statements for further information regarding our single employer plans discussed above.

Table of Contents

We have a deferred compensation plan where the assets are maintained in a rabbi trust and the corresponding liability related to the plan is recorded in other non-current liabilities. We did not include estimated payments related to the deferred compensation liability as the timing and payment of these amounts are determined by the participants and outside our control. Refer to Note 2 and Note 6 of the Notes to our Audited Consolidated Financial Statements for further information.

In general, we are covered under conventional insurance programs with high deductibles or are self-insured for large portions of many different types of claims. Our accrued liabilities for our losses related to these programs is estimated through actuarial procedures of the insurance industry and by using industry assumptions, adjusted for our specific expectations based on our claim history. As of December 31, 2017, our accrued liabilities for our losses related to these programs totaled approximately $94 million. Refer to Note 2 and Note 14 of the Notes to our Audited Consolidated Financial Statements for further information. We did not include estimated payments related to our insurance liability in the table above.

OFF-BALANCE SHEET ARRANGEMENTS

We currently participate in three multi-employer pension plans. In the event that we withdraw from participation in one of these plans, the plan will ultimately assess us a withdrawal liability for exiting the plan, and U.S. GAAP would require us to record the withdrawal charge as an expense in our consolidated statements of income and as a liability on our consolidated balance sheets once the multi-employer pension withdrawal charge is probable and estimable. Refer to Note 6 of the Notes to our Audited Consolidated Financial Statements for additional information regarding our multi-employer pension plans.

There are no other off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our results of operations, financial condition, liquidity, capital expenditures or capital resources other than letters of credit outstanding. Refer to Note 7 of the Notes to our Audited Consolidated Financial Statements for additional information regarding outstanding letters of credit.

CRITICAL ACCOUNTING ESTIMATES

The process of preparing our consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. Critical accounting estimates are both fundamental to the portrayal of a company’s financial condition and results and require difficult, subjective or complex estimates and assessments. These estimates and judgments are based on historical experience, future expectations and other factors and assumptions we believe to be reasonable under the circumstances. The most significant estimates and judgments are reviewed on an ongoing basis and revised when necessary. We have not made any material changes in the accounting methodology we use to assess or measure our critical accounting estimates. We have identified the items described below as our critical accounting estimates. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use in our critical accounting estimates. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material to our consolidated financial statements. See Note 2 of the Notes to our Audited Consolidated Financial Statements for a discussion of these and other accounting policies.

Table of Contents

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Goodwill and Other Indefinite Lived Intangible Assets		
For goodwill and other indefinite lived intangible assets, we conduct tests for impairment annually, as of October 1, or more frequently if events or circumstances indicate the carrying amount may not be recoverable. We use present value and other valuation techniques to make this assessment. If the carrying amount of goodwill or an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. For purposes of impairment testing we assign goodwill to the reporting unit that benefits from the synergies arising from each business combination and also assign indefinite lived intangible assets to our reporting units. We define reporting units as Beverage Concentrates, Latin America Beverages, and Packaged Beverages' three reporting units, DSD, WD and Bai. The impairment test for indefinite lived intangible assets encompasses calculating a fair value of an indefinite lived intangible asset and comparing the fair value to its carrying value. If the carrying value exceeds the estimated fair value, impairment is recorded. The impairment tests for goodwill include comparing a fair value of the respective reporting unit with its carrying value, including goodwill and considering any indefinite lived intangible asset impairment charges ("Step 1"). If the carrying value exceeds the estimated fair value, impairment is indicated and a second step ("Step 2") analysis must be	For our detailed impairment analysis, we used an income based approach to determine the fair value of our assets, as well as an overall consideration of market capitalization and our enterprise value. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry and economic factors and the profitability of future business strategies. These assumptions could be negatively impacted by various risks discussed in "Risk Factors" in this Annual Report on Form 10-K. Critical assumptions include revenue growth and profit performance, as well as an appropriate discount rate. Discount rates are based on a weighted average cost of equity and cost of debt, adjusted with various risk premiums. For 2017, such discount rates ranged from 5.00% to 8.00%.	The carrying values of goodwill and indefinite lived intangible assets as of December 31, 2017, were $3,561 million and $3,781 million, respectively. As of October 1, 2017, we recorded a $1 million impairment charge for our Aguafiel brand, which was the value acquired in the step-acquisition of IEBM and EMA in 2016. As of October 1, 2015, we recorded a $7 million impairment charge for our Garden Cocktail brand. We have not identified any other impairments in goodwill or other indefinite lived intangible assets during 2017, 2016 or 2015. Holding all other assumptions in the analysis constant, including the revenue and profit performance assumption, the effect of a 0.50% increase in the discount rate used to determine the fair value of the reporting units as of October 1, 2017 would not change our conclusion, except for Bai. As of January 1, 2018, the Bai and WD reporting units were aggregated into one reporting unit for purposes of impairment testing. Refer to Note 20 of the Notes to our Audited Consolidated Financial Statements for further information about the change in our reporting units. As a result of this change, the Bai sensitivity was not provided as it will no longer be measured as a separate reporting unit. Holding all other assumptions in the analysis constant, including the revenue and profit performance assumption, the effect of a 0.50% increase in the discount rate used to determine the fair value of our brands as of October 1, 2017 would reduce the fair value of our brands but would not change our conclusion except for Bai. The result of this effect would impact the amount of headroom over the carrying value of our brands as follows (in millions):

Headroom Percentage	Fair Value Result	Fair Value +0.50%	Carrying Value Result	Carrying Value +0.50%
Potential impairment	$—	$990	$—	$1,073
0 - 10%	1,122	—	1,073	—
11 - 20%	—	—	—	—
21 - 50%	—	919	—	655
51 - 100%	1,011	—	655	—
>100%	16,508	14,943	1,971	1,971
	$18,641	$16,852	$3,699	$3,699

Furthermore, during 2018, if actual results do not achieve the revenue and profit performance assumptions used in our impairment analysis as of October 1, 2017, the Bai brand could also become impaired.

Revenue Recognition

We recognize revenue, net of the costs of our customer incentives, at the time risk of loss has been transferred to our customer.

Accruals for customer incentives and marketing programs are established for the expected payout based on contractual terms, volume-based metrics and/or historical trends.

Our customer incentives and marketing accrual methodology contains uncertainties because it requires management to make assumptions and to apply judgment to estimate our customer participation and volume performance levels which impact the expense recognition. Our estimates are based primarily on a combination of known or historical transaction experiences. Differences between estimated expenses and actual costs are normally insignificant and are recognized to earnings in the period differences are determined.

Further judgment is required to ensure the classification of the spend is correctly recorded as either a reduction from gross sales or advertising and marketing expense.

A 10% change in the accrual for our customer incentives and marketing programs as of December 31, 2017, would have affected our net sales and SG&A expenses by $27 million and $3 million for the year ended December 31, 2017.

Table of Contents

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Pension Benefits We have several pension plans covering employees who satisfy age and length of service requirements. Depending on the plan, pension benefits are based on a combination of factors, which may include salary, age and years of service. Our largest U.S. defined benefit pension plan, which is a cash balance plan, was suspended and the accrued benefit was frozen effective December 31, 2008. Participants in this plan no longer earn additional benefits for future services or salary increases. Employee benefit plan obligations and expenses included in our Consolidated Financial Statements are determined from actuarial analyses based on plan assumptions, employee demographic data, years of service, compensation, benefits paid and employer contributions.	The calculation of pension plan obligations and related expenses is dependent on several assumptions used to estimate the present value of the benefits earned while the employee is eligible to participate in the plans. The key assumptions we use in the actuarial methods to determine the plan obligations and related expenses include: (1) the discount rate used to calculate the present value of the plan liabilities; (2) retirement age and mortality; and (3) the expected return on plan assets. Our assumptions reflect our historical experience and our best judgment regarding future performance. Refer to Note 6 of the Notes to our Audited Consolidated Financial Statements for further information about the key assumptions.	The effect of a 1% increase or decrease in the weighted-average discount rate used to determine the pension benefit obligations for U.S. plans would change the benefit obligation as of December 31, 2017 by approximately a $25 million decrease and a $31 million increase, respectively. The effect of a 1% increase or decrease in the weighted-average discount rate used to determine the net periodic pension costs would change the costs for the year ended December 31, 2017 by approximately $2 million decrease and a $3 million increase, respectively. The effect of a 1% increase or decrease in the expected return on plan assets used to determine the net periodic pension

		costs would change the costs for the year ended December 31, 2017 by approximately $2 million.
Risk Management Programs We retain selected levels of property, casualty, workers' compensation, health and other business risks. Many of these risks are covered under conventional insurance programs with high deductibles or self-insured retentions.	We believe the use of actuarial methods to estimate our future losses provides a consistent and effective way to measure our self-insured liabilities. However, the estimation of our liability is judgmental and uncertain given the nature of claims involved and length of time until their ultimate cost is known. Accrued liabilities related to the retained casualty and health risks are calculated based on loss experience and development factors, which contemplate a number of variables including claim history and expected trends. These loss development factors are established in consultation with actuaries.	We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate our self-insured liabilities as compared to prior periods. The final settlement amount of claims can differ materially from our estimate as a result of changes in factors such as the frequency and severity of accidents, medical cost inflation, legislative actions, uncertainty around jury verdicts and awards and other factors outside of our control. A 10% change in our accrued liabilities related to the retained risks, net of associated receivables, as of December 31, 2017 would have affected income from operations

by approximately $8 million for the year ended December 31, 2017.

Income Taxes

We establish income tax liabilities to remove some or all of the income tax benefit of any of our income tax positions based upon one of the following: (1) the tax position is not “more likely than not” to be sustained, (2) the tax position is “more likely than not” to be sustained, but for a lesser amount, or (3) the tax position is “more likely than not” to be sustained , but not in the financial period in which the tax position was originally taken.

We assess the likelihood of realizing our deferred tax assets. Valuation allowances reduce deferred tax assets to the amount more likely than not to be realized.

Our liability for uncertain tax positions contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with our various tax positions.

We base our judgment of the recoverability of our deferred tax asset primarily on historical earnings, our estimate of current and expected future earnings and prudent and feasible tax planning strategies.

Our income tax returns, like those of most companies, are periodically audited by domestic and foreign tax authorities. These audits include questions regarding our tax positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. As these audits progress, events may occur that cause us to change our liability for uncertain tax positions.

To the extent we prevail in matters for which a liability for uncertain tax positions has been established, or are required to pay amounts in excess of our established liability, our effective tax rate in a given financial statement period could be

materially affected. An unfavorable tax settlement generally would require use of our cash and may result in an increase in our effective tax rate in the period of resolution. A favorable tax settlement may be recognized as a reduction in our effective tax rate in the period of resolution.

If results differ from our assumptions, a valuation allowance against deferred tax assets may be increased or decreased which would impact our effective tax rate.

Table of Contents

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Business Combinations		
We record acquisitions using the purchase method of accounting. All of the assets acquired and liabilities assumed are recorded at fair value as of the acquisition date. The excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired is recorded as goodwill.	The application of the purchase method of accounting for business combinations requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed, in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. The fair value assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. Significant assumptions and estimates include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset, if applicable.	If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the financial statements may be exposed to potential impairment of the intangible assets and goodwill, as discussed in the Goodwill and Other Indefinite Lived Intangible Assets critical accounting estimate section.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note 2 of the Notes to our Audited Consolidated Financial Statements for management's discussion of the effect of recent accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to market risks arising from changes in market rates and prices, including movements in foreign currency exchange rates, interest rates and commodity prices. From time to time, we may enter into derivatives or other financial instruments to hedge or mitigate commercial risks. We do not enter into derivative instruments for speculation, investment or trading.

Foreign Exchange Risk

The majority of our net sales, expenses and capital purchases are transacted in U.S. dollars. However, we have exposure with respect to foreign exchange rate fluctuations. Our primary exposure to foreign exchange rates is the Canadian dollar and Mexican peso against the U.S. dollar. Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred. As of December 31, 2017, the impact to our income from operations of a 10% change (up or down) in exchange rates is estimated to be an

increase or decrease of approximately $21 million on an annual basis.
We use derivative instruments such as foreign exchange forward contracts to manage a portion of our exposure to changes in foreign exchange rates. As of December 31, 2017, we had derivative contracts outstanding with a notional value of $48 million maturing at various dates through December 17, 2018.
Interest Rate Risk
We centrally manage our debt portfolio through the use of interest rate swaps and monitor our mix of fixed-rate and variable rate debt. As of December 31, 2017, the carrying value of our fixed-rate debt, excluding capital leases, was $4,230 million, $1,070 million of which has been swapped to floating rates and exposed to variability in interest rates. The following table is an estimate of the impact to the interest rate swaps that could result from hypothetical interest rate changes during the term of the financial instruments, based on debt levels as of December 31, 2017:
Sensitivity Analysis

Hypothetical Change in Interest Rates	Annual Impact to Interest Expense	Change in Fair Value [(2)]
1-percent decrease[(1)]	$11 million decrease	$49 million increase
1-percent increase	$11 million increase	$46 million decrease

(1) We pay an average floating rate, which fluctuates periodically, based on LIBOR and a credit spread, as a result of interest rate swaps on certain debt instruments. See Note 8 of the Notes to our Audited Consolidated Financial Statements for further information.
(2) See Note 2 and Note 8 of the Notes to our Audited Consolidated Financial Statements for additional information on classification and quantification of these derivative positions.

Table of Contents

Commodity Risks

We are subject to market risks with respect to commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. Our principal commodities risks relate to our purchases of resin (for PET), aluminum, diesel fuel, corn (for high fructose corn syrup), apple juice concentrate, apples, sucrose and natural gas (for use in processing and packaging).

We utilize commodities forward and future contracts and supplier pricing agreements to hedge the risk of adverse movements in commodity prices for limited time periods for certain commodities. The fair market value of these contracts as of December 31, 2017 was a net asset of $44 million.

As of December 31, 2017, the impact of a 10% change (up or down) in market prices for these commodities where the risk of adverse movements has not been hedged is estimated to be an increase or decrease of approximately $21 million to our income from operations for the year ending December 31, 2018.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Audited Consolidated Financial Statements:	Page Number
Reports of Independent Registered Public Accounting Firm	53
Consolidated Statements of Income	55
Consolidated Statements of Comprehensive Income	56
Consolidated Balance Sheets	57
Consolidated Statements of Cash Flows	58
Consolidated Statements of Changes in Stockholders' Equity	59
Notes to Audited Consolidated Financial Statements	60
1. Business and Basis of Presentation	60
2. Significant Accounting Policies	61
3. Acquisitions and Investments in Unconsolidated Subsidiaries	69
4. Goodwill and Other Intangible Assets	73
5. Income Taxes	75
6. Employee Benefit Plans	78
7. Long-Term Obligation and Borrowing Arrangements	85
8. Derivatives	88
9. Stock-Based Compensation	92
10. Earnings Per Share	96
11. Property, Plant and Equipment	97
12. Leases	97
13. Inventories	98
14. Other Assets and Liabilities	99
15. Commitments and Contingencies	100
16. Accumulated Other Comprehensive Loss	100
17. Supplemental Cash Flow Information	101
18. Segments	102
19. Guarantor and Non-Guarantor Financial Information	105
20. Subsequent Events	114

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the stockholders and Board of Directors of
Dr Pepper Snapple Group, Inc.
Plano, Texas

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Dr Pepper Snapple Group, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2018 expressed an unqualified opinion on the Company’s internal control over financial reporting.
Basis for Opinion
These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
February 14, 2018

We have served as the Company’s auditor since 2006.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and Board of Directors of
Dr Pepper Snapple Group, Inc.
Plano, Texas

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Dr Pepper Snapple Group, Inc. and subsidiaries (the "Company") as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017 of the Company and our report dated February 14, 2018 expressed an unqualified opinion on those financial statements.

As described in Management’s Annual Report on Internal Control over Financial Reporting, appearing under Item 9A, management excluded from its assessment the internal control over financial reporting at Bai Brands LLC, which was acquired on January 31, 2017 and whose financial statements constitute 17% and 1% of total assets and net sales, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2017. Accordingly, our audit did not include the internal control over financial reporting at Bai Brands LLC.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting, appearing under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
February 14, 2018

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2017, 2016 and 2015

	For the Year Ended December 31,		
(in millions, except per share data)	2017	2016	2015
Net sales	$6,690	$6,440	$6,282
Cost of sales	2,695	2,582	2,559
Gross profit	3,995	3,858	3,723
Selling, general and administrative expenses	2,556	2,329	2,313
Depreciation and amortization	102	99	105
Other operating (income) expense, net	(51)	(3)	7
Income from operations	1,388	1,433	1,298
Interest expense	164	147	117
Interest income	(3)	(3)	(2)
Loss on early extinguishment of debt	62	31	—
Other income, net	(8)	(25)	(1)
Income before provision for income taxes and equity in loss of unconsolidated subsidiaries	1,173	1,283	1,184
Provision for income taxes	95	434	420
Income before equity in loss of unconsolidated subsidiaries	1,078	849	764
Equity in loss of unconsolidated subsidiaries, net of tax	(2)	(2)	—
Net income	$1,076	$847	$764
Earnings per common share:			
Basic	$5.91	$4.57	$4.00
Diluted	5.89	4.54	3.97
Weighted average common shares outstanding:			
Basic	182.0	185.4	190.9
Diluted	182.8	186.6	192.4

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

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017, 2016 and 2015

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Net income	$1,076	$847	$764
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	16	(39)	(64)
Net change in pension and post-retirement liability, net of tax of $3, $0 and $1	5	(1)	4
Net change in cash flow hedges, net of tax of $4, $4 and $1	6	6	2
Total other comprehensive income (loss), net of tax	27	(34)	(58)
Comprehensive income	$1,103	$813	$706

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

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2017 and 2016

(in millions, except share and per share data)	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 61	$ 1,787
Restricted cash and restricted cash equivalents	18	—
Accounts receivable:		
Trade, net	668	595
Other	42	51
Inventories	229	202
Prepaid expenses and other current assets	99	101
Total current assets	1,117	2,736
Property, plant and equipment, net	1,198	1,138
Investments in unconsolidated subsidiaries	24	23
Goodwill	3,561	2,993
Other intangible assets, net	3,781	2,656
Other non-current assets	279	183
Deferred tax assets	62	62
Total assets	$ 10,022	$ 9,791
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 365	$ 303
Deferred revenue	64	64
Short-term borrowings and current portion of long-term obligations	79	10
Income taxes payable	11	4
Other current liabilities	719	670
Total current liabilities	1,238	1,051
Long-term obligations	4,400	4,468
Deferred tax liabilities	614	812
Non-current deferred revenue	1,055	1,117
Other non-current liabilities	264	209
Total liabilities	7,571	7,657
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 15,000,000 shares authorized, no shares issued	—	—
Common stock, $0.01 par value, 800,000,000 shares authorized, 179,743,028 and 183,119,843 shares issued and outstanding as of December 31, 2017 and December 31, 2016, respectively	2	2
Additional paid-in capital	—	95
Retained earnings	2,651	2,266
Accumulated other comprehensive loss	(202)	(229)
Total stockholders' equity	2,451	2,134
Total liabilities and stockholders' equity	$ 10,022	$ 9,791

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

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017, 2016 and 2015

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Operating activities:			
Net income	$1,076	$847	$764
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	198	191	192
Amortization expense	31	33	35
Amortization of deferred revenue	(64)	(64)	(64)
Impairment of intangible asset	1	—	7
Employee stock-based compensation expense	36	45	44
Deferred income taxes	(201)	29	29
Loss on early extinguishment of debt	62	31	—
Gain on step acquisition of unconsolidated subsidiaries	(28)	(5)	—
Gain on extinguishment of multi-employer plan withdrawal liability	—	(21)	—
Unrealized (gains) losses on economic hedges	(24)	(40)	5
Other, net	(4)	13	8
Changes in assets and liabilities, net of effects of acquisition:			
Trade accounts receivable	(47)	(31)	(26)
Other accounts receivable	9	3	1
Inventories	—	3	(11)
Other current and non-current assets	(20)	(50)	8
Other current and non-current liabilities	(19)	(53)	(11)
Trade accounts payable	24	32	(9)
Income taxes payable	8	(2)	42
Net cash provided by operating activities	1,038	961	1,014
Investing activities:			
Acquisition of business	(1,556)	(15)	—
Cash acquired in step acquisition of unconsolidated subsidiaries	4	17	—
Purchase of property, plant and equipment	(202)	(180)	(179)
Purchase of intangible assets	(6)	(2)	(1)
Investment in unconsolidated subsidiaries	(3)	(6)	(20)
Purchase of cost method investments	—	(1)	(15)
Proceeds from disposals of property, plant and equipment	3	6	20
Other, net	(3)	(8)	1
Net cash used in investing activities	(1,763)	(189)	(194)
Financing activities:			
Proceeds from issuance of senior unsecured notes	400	1,950	750
Repayment of senior unsecured notes	(562)	(891)	—
Net issuance of commercial paper	66	—	—
Repurchase of shares of common stock	(399)	(519)	(521)
Dividends paid	(414)	(386)	(355)
Tax withholdings related to net share settlements of certain stock awards	(30)	(31)	(27)
Proceeds from stock options exercised	20	14	30
Premium (discount) on issuance of senior unsecured notes	16	(1)	(4)

Proceeds from termination of interest rate swap	13	—	—
Deferred financing charges paid	(5)	(19)	(6)
Capital lease payments	(12)	(9)	(5)
Other, net	—	—	1
Net cash provided by (used in) financing activities	(907)	108	(137)
Cash, cash equivalents, restricted cash and restricted cash equivalents — net change from:			
Operating, investing and financing activities	(1,632)	880	683
Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	3	(4)	(9)
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of year	1,787	911	237
Cash, cash equivalents, restricted cash, and restricted cash equivalents at end of year	$158	$1,787	$911

Refer to Note 17 for supplemental cash flow disclosures.
The accompanying notes are an integral part of these consolidated financial statements.

58

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2017, 2016 and 2015

(in millions, except per share data)	Common Stock Issued Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
Balance as of January 1, 2015	193.0	$ 2	$ 658	$ 1,771	$ (137)	$ 2,294
Shares issued under employee stock-based compensation plans and other	1.4	—	—	—	—	—
Net income	—	—	—	764	—	764
Other comprehensive loss	—	—	—	—	(58)	(58)
Dividends declared, $1.92 per share	—	—	4	(370)	—	(366)
Stock options exercised and stock-based compensation, net of tax of ($23)	—	—	70	—	—	70
Common stock repurchases	(6.5)	—	(521)	—	—	(521)
Balance as of December 31, 2015	187.9	2	211	2,165	(195)	2,183
Shares issued under employee stock-based compensation plans and other	0.9	—	—	—	—	—
Net income	—	—	—	847	—	847
Other comprehensive loss	—	—	—	—	(34)	(34)
Dividends declared, $2.12 per share	—	—	3	(396)	—	(393)
Stock options exercised and stock-based compensation, net of tax of ($22)	—	—	50	—	—	50
Common stock repurchases	(5.7)	—	(169)	(350)	—	(519)
Balance as of December 31, 2016	183.1	2	95	2,266	(229)	2,134
Shares issued under employee stock-based compensation plans and other	1.0	—	—	—	—	—
Net income	—	—	—	1,076	—	1,076
Other comprehensive income	—	—	—	—	27	27
Dividends declared, $2.32 per share	—	—	4	(424)	—	(420)
Deemed capital contribution from former shareholders of Bai Brands LLC	—	—	6	—	—	6
Stock options exercised and stock-based compensation	—	—	27	—	—	27
Common stock repurchases	(4.4)	—	(132)	(267)	—	(399)
Balance as of December 31, 2017	179.7	$ 2	$ —	$ 2,651	$ (202)	$ 2,451

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

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Basis of Presentation

References in the Notes to Audited Consolidated Financial Statements to "DPS" or "the Company" refer to Dr Pepper Snapple Group, Inc. and all entities included in the Audited Consolidated Financial Statements.

The Notes to Audited Consolidated Financial Statements refer to some of DPS' owned or licensed trademarks, trade names and service marks, which are referred to as the Company's brands. All of the product names included herein are either DPS' registered trademarks or those of the Company's licensors.

Nature of Operations

DPS is a leading integrated brand owner, manufacturer and distributor of non-alcoholic beverages in the United States ("U.S."), Mexico and Canada with a diverse portfolio of flavored (non-cola) carbonated soft drinks ("CSDs") and non-carbonated beverages ("NCBs"), including ready-to-drink teas, juices, juice drinks, water and mixers. The Company's brand portfolio includes popular CSD brands such as Dr Pepper, Canada Dry, Peñafiel, Squirt, 7UP, Crush, A&W, Sunkist soda and Schweppes, and NCB brands such as Snapple, Bai, Hawaiian Punch, Mott's and Clamato.

The Company was incorporated in Delaware on October 24, 2007. In 2008, Cadbury plc separated its beverage business in the U.S., Canada, Mexico and the Caribbean (the "Americas Beverages business") from its global confectionery business by contributing the subsidiaries that operated its Americas Beverages business to the Company.

Principles of Consolidation

DPS consolidates all wholly-owned subsidiaries. Investments in entities in which DPS does not have a controlling financial interest are accounted for under either the equity method or cost method of accounting, as appropriate. Judgment regarding the level of influence over each equity method or cost method investment includes considering key factors such as ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions.

The Company is also required to consolidate entities that are variable interest entities (“VIEs”) of which DPS is the primary beneficiary. Judgments are made in assessing whether the Company is the primary beneficiary, including determination of the activities that most significantly impact the VIE’s economic performance.

The Company eliminates from its financial results all intercompany transactions between entities included in the consolidated financial statements and the intercompany transactions with its equity method investees.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Reclassifications

Discounts on the issuance of senior unsecured notes have been reclassified from other, net to the premium (discount) on senior unsecured notes caption within the financing activities section in the Consolidated Statements of Cash Flows, as well as the Condensed Consolidating Statements of Cash Flows within Note 19, for prior years to conform to the current year's presentation, with no impact to total cash provided by (used in) operating, investing or financing activities.

Excess tax benefit on stock-based compensation in the Consolidated Statements of Cash Flows and the Condensed Consolidating Statements of Cash Flows within Note 19 has been reclassified from financing activities to other, net within operating activities for the prior period to conform to the current year's presentation as a result of the adoption of Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share Based Payment Accounting ("ASU 2016-09"). Refer to Note 2 for additional information on the impact of the adoption of ASU 2016-09 on the Company's consolidated financial statements.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. Significant Accounting Policies
Use of Estimates
The process of preparing DPS' consolidated financial statements requires the use of estimates and judgments that affect the reported amount of assets, liabilities, revenue and expenses. These estimates and judgments are based on historical experience, future expectations and other factors and assumptions the Company believes to be reasonable under the circumstances. These estimates and judgments are reviewed on an ongoing basis and are revised when necessary. Changes in estimates are recorded in the period of change. Actual amounts may differ from these estimates.

Fair Value
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Based upon the transparency of inputs to the valuation of an asset or liability, a three-level hierarchy has been established for fair value measurements. The three-level hierarchy for disclosure of fair value measurements is as follows:
Level 1 - Quoted market prices in active markets for identical assets or liabilities.
Level 2 - Observable inputs such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
Level 3 - Valuations with one or more unobservable significant inputs that reflect the reporting entity's own assumptions.
The fair value of senior unsecured notes and marketable securities as of December 31, 2017 and 2016 are based on quoted market prices for publicly traded securities.
The Company estimates fair values of financial instruments measured at fair value in the financial statements on a recurring basis to ensure they are calculated based on market rates to settle the instruments. These values represent the estimated amounts DPS would pay or receive to terminate agreements, taking into consideration current market rates and creditworthiness.
As of December 31, 2017 and 2016, the Company did not have any assets or liabilities measured on a recurring basis without observable market values that would require a high level of judgment to determine fair value (Level 3).
Transfers between levels are recognized at the end of each reporting period. There were no transfers of financial instruments between the three levels of fair value hierarchy during the years ended December 31, 2017, 2016 and 2015.
Refer to Notes 4, 6, 7 and 8 for additional information.
Cash and Cash Equivalents
Cash and cash equivalents include cash and investments in short-term, highly liquid securities, with original maturities of three months or less.
The Company is exposed to potential risks associated with its cash and cash equivalents. DPS places its cash and cash equivalents with high credit quality financial institutions. Deposits with these financial institutions may exceed the amount of insurance provided; however, these deposits typically are redeemable upon demand and, therefore, the Company believes the financial risks associated with these financial instruments are minimal.
Trade Accounts Receivable and Allowance for Doubtful Accounts
Trade accounts receivable are recorded at the invoiced amount and do not bear interest.
The Company is exposed to potential credit risks associated with its accounts receivable, as it generally does not require collateral on its accounts receivable. The Company determines the required allowance for doubtful collections using information such as its customer credit history and financial condition, industry and market segment information, economic trends and conditions and credit reports. Allowances can be affected by changes in the industry, customer credit issues or customer bankruptcies. Account balances are charged against the allowance when it is determined that the receivable will not be recovered. The Company has not experienced significant credit-related

losses.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Activity in the allowance for doubtful accounts during the years ended December 31, 2017, 2016 and 2015 was as follows:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Balance, beginning of the year	$3	$ 2	$ 2
Charges to bad debt expense	2	1	2
Write-offs and adjustments	(3)	—	(2)
Balance, end of the year	$2	$ 3	$ 2

As of December 31, 2017 and 2016, WalMart Stores, Inc. ("Walmart") accounted for approximately $78 million and $69 million of trade receivables, respectively, which exceeded 10% of the Company's total trade accounts receivable.

Inventories

Inventories as of December 31, 2017 are stated at the lower of cost or net realizable value. Inventories as of December 31, 2016 are stated at the lower of cost or market value. Cost is primarily determined for inventories of the Company's U.S. subsidiaries by the last-in, first-out ("LIFO") valuation method. The costs for inventories of the Company's foreign subsidiaries are determined by the first-in, first-out ("FIFO") valuation method. The costs of finished goods inventories include raw materials, direct labor and indirect production and overhead costs. Reserves for excess and obsolete inventories are based on an assessment of slow-moving and obsolete inventories, determined by historical usage and demand. Excess and obsolete inventory reserves were $4 million and $2 million as of December 31, 2017 and 2016, respectively. Refer to Note 13 for additional information.

Property, Plant and Equipment, Net

Property, plant and equipment is stated at cost plus capitalized interest on borrowings during the actual construction period of major capital projects, net of accumulated depreciation. Significant improvements which substantially extend the useful lives of assets are capitalized. The costs of major rebuilds and replacements of plant and equipment are capitalized and expenditures for repairs and maintenance which do not improve or extend the life of the assets are expensed as incurred. The Company capitalizes certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use, which are included in property, plant and equipment. When property, plant and equipment is sold or retired, the costs and the related accumulated depreciation are removed from the accounts, and any net gain or loss is recorded in other operating (income) expense, net in the Consolidated Statements of Income. Refer to Note 11 for additional information.

For financial reporting purposes, depreciation is computed on the straight-line method over the estimated useful asset lives as follows:

Type of Asset	Useful Life
Buildings and improvements	7 to 40 years
Machinery and equipment	3 to 25 years
Cold drink equipment	3 to 7 years
Computer software	3 to 8 years

Leasehold improvements, which are primarily considered building improvements, are depreciated over the shorter of the estimated useful life of the assets or the lease term. Estimated useful lives are periodically reviewed and, when warranted, are updated.

The Company periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. In order to assess recoverability, DPS compares the estimated undiscounted future pre-tax cash flows from the use of the asset or group of assets, as defined, to the carrying amount of such assets. Measurement of an impairment loss is based on the excess of the carrying amount of the asset or group of assets over the long-lived asset's fair value. During the years ended December 31, 2017, 2016 and

2015, no impairment was recorded.

Investments

The Company holds investment securities under a deferred compensation plan, which consist of readily marketable equity securities and included in other non-current assets caption on the Consolidated Balance Sheets. Gains or losses from investments classified as trading, if any, are charged to earnings.

The Company also holds non-controlling investments in certain privately held entities which are accounted for as equity method or cost method investments. The companies over which we exert significant influence, but do not control the financial and operating decisions, are accounted for as equity method investments. The Company's proportionate share of the net income (loss) resulting from these investments are reported under the line item captioned equity in loss of unconsolidated subsidiaries, net of tax, in the Consolidated Statements of Income. The carrying value of our equity method investments is reported in investments in unconsolidated subsidiaries in our Consolidated Balance Sheets. The Company classifies distributions received from equity-method investments using the cumulative earnings approach on the Consolidated Statements of Cash Flows. Refer to Note 3 for additional information on our equity method investments.

Other investments that are not controlled, and over which we do not have the ability to exercise significant influence, are accounted for under the cost method and reported in other non-current assets in our Consolidated Balance Sheets. Refer to Note 14 for additional information.

The Company's equity method investments are reported at cost and adjusted each period for the Company's share of the investee's income or loss and dividends paid, if any, while cost method investments are carried at cost. The entities do not have a readily determinable fair value and are periodically evaluated for impairment. An impairment loss would be recorded whenever a decline in value of an investment below its carrying amount is determined to be other than temporary.

Goodwill and Other Intangible Assets

The Company classifies intangible assets into two categories: (1) intangible assets with definite lives subject to amortization and (2) intangible assets with indefinite lives not subject to amortization. The majority of the Company's intangible asset balance is made up of brands which the Company has determined to have indefinite useful lives. In arriving at the conclusion that a brand has an indefinite useful life, management reviews factors such as size, diversification and market share of each brand. Management expects to acquire, hold and support brands for an indefinite period through consumer marketing and promotional support. The Company also considers factors such as its ability to continue to protect the legal rights that arise from these brand names indefinitely or the absence of any regulatory, economic or competitive factors that could truncate the life of the brand name. If the criteria are not met to assign an indefinite life, the brand is amortized over its expected useful life.

Identifiable intangible assets deemed by the Company to have determinable finite useful lives are amortized either on a straight-line basis over their estimated useful lives (customer relationships and distribution rights), or on a basis more representative of the time pattern over which the benefit is derived (non-compete agreements). The estimated useful lives of the Company's intangible assets with definite lives are as follows:

	Useful Life
Customer relationships	7 years
Distribution rights	5 to 15 years
Non-compete agreements	2 to 4 years

The Company does not amortize goodwill, but tests it at least annually for impairment at the reporting unit level. DPS conducts tests for impairment. For intangible assets with definite lives, tests for impairment are performed if conditions exist that indicate the carrying value may not be recoverable. For goodwill and indefinite-lived intangible assets, the Company conducts tests for impairment annually, as of October 1, or more frequently if events or circumstances indicate the carrying amount may not be recoverable. We use present value and other valuation techniques to make this assessment.

The tests for impairment include significant judgment in estimating the fair value of reporting units and intangible assets primarily by analyzing forecasts of future revenues and profit performance. Fair value is based on what the reporting units and intangible assets would be worth to a third party market participant. Management's estimates of

fair value, which fall under Level 3 and are non-recurring, are based on historical and projected operating performance and discount rates. Discount rates are based on a weighted average cost of equity and cost of debt, adjusted with various risk premiums. Refer to Note 4 for additional information.

Capitalized Customer Incentive Programs

The Company provides support to certain customers to cover various programs and initiatives to increase net sales, including contributions to customers or vendors for cold drink equipment used to market and sell the Company's products. These programs and initiatives generally directly benefit the Company over a period of time. Accordingly, costs of these programs and initiatives are recorded in prepaid expenses and other current assets and other non-current assets in the Consolidated Balance Sheets. The costs for these programs are amortized over the period to be directly benefited based upon a methodology consistent with the Company's contractual rights under these arrangements.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

These programs and initiatives recorded in the current and non-current assets within the Consolidated Balance Sheets were $92 million and $81 million, net of accumulated amortization, as of December 31, 2017 and 2016, respectively. The following table summarizes the location of amortization expense related to these programs and initiatives within the Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Net sales	$10	$ 10	$ 9
Selling, general and administrative ("SG&A") expenses	2	3	4
	$12	$ 13	$ 13

Derivatives

The Company formally designates and accounts for certain interest rate contracts and foreign exchange ("FX") forward contracts that meet established accounting criteria as either fair value or cash flow hedges. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instruments is recorded, net of applicable taxes, in Accumulated Other Comprehensive Loss ("AOCL"), a component of Stockholders' Equity in the Consolidated Balance Sheets. When net income is affected by the variability of the underlying transaction, the applicable offsetting amount of the gain or loss from the derivative instrument deferred in AOCL is reclassified to net income and is reported as a component of the Consolidated Statements of Income. For derivative instruments that are designated and qualify as fair value hedges, the effective change in the fair value of the instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized immediately in current-period earnings. For derivatives that are not designated as a hedging instrument, which creates an economic hedge, or de-designated as a hedging instrument, the gain or loss on the instrument is recognized in earnings in the period of change.

Certain interest rate swap agreements qualify for the shortcut method of accounting for hedges. Under the shortcut method, the hedges are assumed to be perfectly effective and no ineffectiveness is recorded in earnings. For all other designated hedges, the Company assesses at the time the derivative contract is entered into, and at least quarterly thereafter, whether the derivative instrument is effective in offsetting the changes in fair value or cash flows. DPS also measures hedge ineffectiveness on a quarterly basis throughout the designated period. For fair value hedges, changes in the fair value of the derivative instrument that do not effectively offset changes in the fair value of the underlying hedged item throughout the designated hedge period are recorded in earnings each period. For cash flow hedges, ineffectiveness, if any, related to the Company's changes in estimates about the forecasted transaction would be recognized directly in earnings during the period incurred.

If a fair value or cash flow hedge were to cease to qualify for hedge accounting, or were terminated, it would continue to be carried on the balance sheet at fair value until settled, but hedge accounting would be discontinued prospectively. If the underlying hedged transaction ceases to exist, any associated amounts reported in long term obligations or AOCL, respectively, are reclassified to earnings at that time. Refer to Note 8 for additional information.

Pension and Postretirement Benefits

The Company has U.S. and foreign pension and postretirement benefit ("PRMB") plans which provide benefits to a defined group of employees who satisfy age and length of service requirements at the discretion of the Company. As of December 31, 2017, the Company has several stand-alone non-contributory defined benefit plans and PRMB plans. Depending on the plan, pension and PRMB are based on a combination of factors, which may include salary, age and years of service.

Employee pension and PRMB plan obligations and the associated expense included in the Consolidated Financial Statements are determined from actuarial analyses based on plan assumptions, employee demographic data, years of

service, compensation, benefits and claims paid and employer contributions. Non-cash settlement charges occur when the total amount of lump sum payments made to participants of various U.S. defined pension plans exceed the estimated annual interest and service costs.

The Company's objective with respect to the funding of our pension plans is to provide adequate assets for the payment of future benefits. Pursuant to this objective, the Company will fund the pension plans as required by governmental regulations and may consider discretionary contributions as conditions warrant.

The Company participates in three multi-employer pension plans and makes contributions to those plans, which are recorded in either cost of sales or SG&A expenses.

Refer to Note 6 for additional information regarding our pension and PRMB plans.

Risk Management Programs

The Company retains selected levels of property, casualty, workers' compensation, health and other business risks. Many of these risks are covered under conventional insurance programs with high deductibles or self-insured retentions. Accrued liabilities related to the retained casualty and health risks are calculated based on loss experience and development factors, which contemplate a number of variables including claim history and expected trends. As of December 31, 2017 and 2016, the Company had accrued liabilities related to the retained risks of $94 million and $103 million, respectively, including both other current and long-term liabilities. As of December 31, 2017 and 2016, the Company recorded receivables of $11 million and $13 million, respectively, for insurance recoveries related to these retained risks.

Income Taxes

Income taxes are accounted for using the asset and liability approach, which involves determining the temporary differences between assets and liabilities recognized for financial reporting and the corresponding amounts recognized for tax purposes and computing the tax-related carryforwards at the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The resulting amounts are deferred tax assets or liabilities. The total of taxes currently payable per the tax return, the deferred tax expense or benefit and the impact of uncertain tax positions represents the income tax expense or benefit for the year for financial reporting purposes.

The Company periodically assesses the likelihood of realizing its deferred tax assets based on the amount that the Company believes is more likely than not to be realized. The Company bases its judgment of the recoverability of its deferred tax assets primarily on historical earnings, its estimate of current and expected future earnings and prudent and feasible tax planning strategies. Refer to Note 5 for additional information.

The Company establishes income tax liabilities to remove some or all of the income tax benefit of any of the Company's income tax positions at the time DPS determines that the positions become uncertain based upon one of the following: (1) the tax position is not "more likely than not" to be sustained, (2) the tax position is "more likely than not" to be sustained, but for a lesser amount, or (3) the tax position is "more likely than not" to be sustained, but not in the financial period in which the tax position was originally taken. The Company's evaluation of whether or not a tax position is uncertain is based on the following: (1) DPS presumes the tax position will be examined by the relevant taxing authority such as the Internal Revenue Service ("IRS") that has full knowledge of all relevant information, (2) the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position, and (3) each tax position is evaluated without considerations of the possibility of offset or aggregation with other tax positions taken. The Company adjusts these income tax liabilities when the Company's judgment changes as a result of new information. Any change will impact income tax expense in the period in which such determination is made.

DPS' effective tax rate may fluctuate on a quarterly and/or annual basis due to various factors, including, but not limited to, total earnings and the mix of earnings by jurisdiction, the timing of changes in tax laws and the amount of tax provided for uncertain tax positions.

Common Stock Share Repurchases

The Company repurchases shares of DPS common stock under a program authorized by the Board of Directors, including plans meeting the requirements of Rule 10b5-1(c)(1) of the Securities Exchange Act of 1934. Shares repurchased are retired and not displayed separately as treasury stock on the financial statements. Instead, the par value of repurchased shares is deducted from common stock and the excess repurchase price over par value is deducted from additional paid-in capital and subsequently from retained earnings, once additional paid-in capital is depleted.

Revenue Recognition

The Company recognizes sales revenue when all of the following have occurred: (1) delivery; (2) persuasive evidence of an agreement exists; (3) pricing is fixed or determinable; and (4) collection is reasonably assured. Delivery is not

considered to have occurred until the title and the risk of loss passes to the customer. Net sales are reported net of costs associated with customer marketing programs and incentives, as described below, as well as sales taxes and other similar taxes.
Multiple deliverables were included in the arrangements entered into with PepsiCo, Inc. ("PepsiCo") and The Coca-Cola Company ("Coca-Cola") during 2010. As the sale of the manufacturing and distribution rights and the ongoing sales of concentrate would not have stand-alone value to the customer, both deliverables were determined to represent a single element of accounting for purposes of revenue recognition. The one-time nonrefundable cash receipts from PepsiCo and Coca-Cola were therefore recorded as deferred revenue and are recognized as net sales ratably over the estimated 25-year life of the customer relationship.

Customer Marketing Programs and Incentives

The Company offers a variety of incentives and discounts to bottlers, customers and consumers through various programs to support the distribution of its products. These incentives and discounts include cash discounts, price allowances, volume based rebates, product placement fees and other financial support for items such as trade promotions, displays, new products, consumer incentives and advertising assistance. These incentives and discounts are reflected as a reduction of gross sales to arrive at net sales. The aggregate deductions from gross sales recorded in relation to these programs were approximately $4,266 million, $4,082 million and $3,844 million during the years ended December 31, 2017, 2016 and 2015, respectively. Accruals are established for the expected payout based on contractual terms, volume-based metrics and/or historical trends and require management judgment with respect to estimating customer participation and performance levels.

Cost of Sales

Cost of goods sold includes all costs to acquire and manufacture our products including raw materials, direct and indirect labor, manufacturing overhead, including depreciation expense, and all other costs incurred to bring the product to salable condition. All other costs incurred after this condition is met are considered selling costs and included in SG&A expenses.

Transportation and Warehousing Costs

The Company incurred $843 million, $792 million and $806 million of transportation and warehousing costs during the years ended December 31, 2017, 2016 and 2015, respectively. These amounts, which primarily relate to shipping and handling costs are recorded in SG&A expenses in the Consolidated Statements of Income.

Advertising and Marketing Expense

Advertising and marketing production costs related to television, print, radio and other marketing investments are expensed as of the first date the advertisement takes place. All other advertising and marketing costs are expensed as incurred. Advertising and marketing expense was approximately $547 million, $477 million and $473 million during the years ended December 31, 2017, 2016 and 2015, respectively. These expenses are recorded in SG&A expenses in the Consolidated Statements of Income. As of December 31, 2017 and 2016, prepaid advertising and marketing costs of approximately $12 million and $10 million, respectively, were recorded as other current and non-current assets in the Consolidated Balance Sheets.

Research and Development Costs

Research and development costs are expensed when incurred and amounted to $20 million, $20 million and $19 million for the years ended December 31, 2017, 2016 and 2015, respectively. These expenses are recorded in SG&A expenses in the Consolidated Statements of Income.

Stock-Based Compensation Expense

The Company recognizes compensation expense in the Consolidated Statements of Income related to the fair value of employee stock-based awards. Compensation cost is based on the grant-date fair value, which is estimated using the Black-Scholes option pricing model for stock options. The fair value of restricted stock units ("RSUs") is determined based on the number of units granted and the grant date price of common stock. The fair value of the performance stock units ("PSUs"), which includes a market condition, is estimated at the date of grant using
a Monte-Carlo simulation. Stock-based compensation expense is recognized ratably, less estimated forfeitures, over the vesting period in the Consolidated Statements of Income. Stock-based compensation expense for PSUs is adjusted quarterly based on the current estimate of performance compared to the target metrics.

The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option, RSU and PSU forfeitures and record stock-based compensation expense only for those awards that are expected to vest. Refer to Note 9 for additional information .

Deferred Compensation Plan

Employee and employer matching contributions under the Supplemental Savings Plan ("SSP") are maintained in a rabbi trust and are not readily available to us. Participants can direct the investment of their deferred compensation plan accounts in the same investment funds offered by the DPS' Savings Incentive Plan (the "SIP"). Refer to Note 6 for additional information.

Foreign Currency Translation and Transaction

The functional currency of the Company's operations outside the U.S. is generally the local currency of the country where the operations are located. The balance sheets of operations outside the U.S. are translated into U.S. dollars at the end of year rates. The results of operations are translated into U.S. dollars at a monthly average rate, calculated using daily exchange rates.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following table sets forth exchange rate information for the periods and currencies indicated:

Mexican Peso to U.S. Dollar Exchange Rate	End of Year Rates	Annual Average Rates
2017	19.66	18.92
2016	20.62	18.68
2015	17.25	15.87

Canadian Dollar to U.S. Dollar Exchange Rate	End of Year Rates	Annual Average Rates
2017	1.25	1.30
2016	1.34	1.33
2015	1.38	1.28

Differences arising from the translation of opening balance sheets of these entities to the rate ruling at the end of the financial year are recognized in AOCL. The differences arising from the translation of foreign results at the average rate are also recognized in AOCL. Such translation differences are recognized as income or expense in the period in which the Company disposes of the operations.

Transactions in foreign currencies are recorded at the approximate rate of exchange at the transaction date. Assets and liabilities resulting from these transactions are translated at the rate of exchange in effect at the balance sheet date. All such differences are recorded in results of operations.

Recently Issued Accounting Standards

Effective in 2018

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects to be entitled to in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. ASU 2014-09 provides alternative methods of initial adoption. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations for the new model. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the implementation guidance related to identifying performance obligations and licensing for the new model. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which improves guidance on assessing collectibility, presentation of sales taxes, non-cash consideration, and completed contracts and contract modifications at transition. These updates are effective concurrently with Topic 606 (ASU 2014-09).

The Company intends to adopt the above standards using the modified retrospective approach for the quarter ending March 31, 2018 by recognizing the cumulative effect of initially applying the new standard, driven predominantly by

the acceleration of customer incentives, as a decrease to the opening balance of retained earnings, with an immaterial impact to our net income on an ongoing annual basis. The Company does expect that it could have an impact on its net sales in interim periods due to timing. The Company has evaluated the disclosure requirements under these standards and is implementing controls to support these new disclosure requirements, which will include additional disclosures of disaggregated net sales.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). ASU 2017-07 requires employers who offer defined benefit pension plans or other post-retirement benefit plans to report the service cost component within the same income statement caption as other compensation costs arising from services rendered by employees during the period. The ASU also requires the other components of net periodic benefit cost to be presented separately from the service cost component, in a caption outside of a subtotal of income from operations. The Company intends to adopt ASU 2017-07 for the quarter ending March 31, 2018 and expects to reclassify $7 million of pension and other PRMB plan expenses for each of the years ended December 31, 2017 and 2016, respectively, from SG&A expenses to other nonoperating income, net.

Effective in 2019

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). The ASU replaces the prior lease accounting guidance in its entirety. The underlying principle of the new standard is the recognition of lease assets and lease liabilities by lessees for substantially all leases, with an exception for leases with terms of less than twelve months. The standard also requires additional quantitative and qualitative disclosures. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The standard requires a modified retrospective approach, which includes several optional practical expedients. The Company intends to adopt the standard during the quarter ending March 31, 2019. The Company has assembled a cross functional project management team, selected a software provider and have begun the implementation of the software. The Company anticipates the impact of the standard to be significant to its Consolidated Balance Sheet due to the amount of the Company's lease commitments. See Note 12 for further information regarding leases. The Company is currently evaluating the other impacts that ASU 2016-02 will have on the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). The objective of the ASU is to improve the financial reporting of hedging relationships in order to better portray the economic results of an entity’s risk management activities in its financial statements and to make certain targeted improvements to simplify the application of hedge accounting guidance. ASU 2017-12 is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of ASU 2017-12 on the Company's consolidated financial statements.

Effective in 2020

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). The standard provides for a new impairment model which requires measurement and recognition of expected credit losses for most financial assets held. The ASU is effective for public companies for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. The Company does not anticipate ASU 2016-13 to have a material impact on the consolidated financial statements.

Effective in 2021

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). The standard provides for the elimination of Step 2 from the goodwill impairment test. If impairment charges are recognized, the amount recorded will be the amount by which the carrying amount exceeds the reporting unit’s fair value with certain limitations. The ASU is effective for public companies for annual periods, and interim periods within those annual periods, beginning after December 15, 2020, and early adoption is permitted. The Company does not currently anticipate ASU 2017-04 to have a material impact on the consolidated financial statements.

Recently Adopted Provisions of U.S. GAAP

As of January 1, 2017, the Company adopted ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 requires inventories measured under any methods other than last-in, first-out ("LIFO") or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. Subsequent measurement of inventory using LIFO or the retail inventory method is unchanged by ASU 2015-11. The adoption of ASU 2015-11 did not have a material impact on the Company's consolidated financial statements.

As of January 1, 2017, the Company adopted ASU 2016-09, which is part of the FASB's simplification initiative. The new standard provides for changes to accounting for stock compensation including 1) excess tax benefits and tax deficiencies related to share based payment awards will be recognized as income tax benefit or expense in the reporting period in which they occur; 2) excess tax benefits will be classified as an operating activity in the statement of cash flow; 3) the option to elect to estimate forfeitures or account for them when they occur; and 4) an increase in the tax withholding requirements threshold to qualify for equity classification. Beginning in 2017, the primary impact of adoption was the recognition of excess tax benefits for our stock awards in the provision for income taxes rather than additional paid-in capital. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact to retained earnings. The Company elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

Adoption of the new standard resulted in the recognition of excess tax benefits in our provision for income taxes rather than paid-in capital of $19 million for the year ended December 31, 2017. The presentation of excess tax benefits on stock-based compensation was adjusted retrospectively within the Consolidated Statements of Cash Flows, resulting in a $22 million and $23 million increase in net cash provided by operating activities for the years ended December 31, 2016, and 2015, respectively, with a corresponding increase to net cash provided by (used in) financing activities. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented on the Consolidated Statements of Cash Flows as the Company has historically presented them as a financing activity.

As of January 1, 2017, the Company early adopted ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash ("ASU 2016-18"), which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning and ending amounts shown on the statement of cash flows. The Company elected to early adopt the provisions of ASU 2016-18 as of January 1, 2017 and has revised its Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015, to reflect amounts described as restricted cash and restricted cash equivalents included with cash and cash equivalents in the reconciliation of beginning of period and end of period total amounts shown on the Consolidated Statements of Cash Flow. The adoption had no impact on amounts presented in the Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015. Refer to Note 17 for the reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents as presented on the Consolidated Balance Sheets to the amounts as shown on the Consolidated Statements of Cash Flows.

3. Acquisitions and Investments in Unconsolidated Subsidiaries

2017 ACQUISITION

Bai Brands Merger

On November 21, 2016, we entered into an Agreement and Plan of Merger (the "Bai Merger Agreement") with Bai Brands LLC ("Bai Brands"), pursuant to which we agreed to acquire Bai Brands for a cash purchase price of $1.7 billion, subject to certain adjustments in the Bai Merger Agreement (the "Bai Brands Merger"). The acquisition of Bai Brands will further enable the Company to meet growing consumer demand for better-for-you beverages, as Bai Brands is positioned for expanding growth in key beverage segments.

On January 31, 2017, the Company funded the Bai Brands Merger with the net proceeds from the senior unsecured notes issued in December 2016 and cash on hand. In order to complete the Bai Brands Merger, the Company paid $1,548 million, net of the Company's previous ownership interest, in exchange for the remaining ownership interests and seller transaction costs. Additionally, $103 million was held back and placed in escrow.

As a result of the Bai Brands Merger, our existing 2.63% equity interest in Bai Brands was remeasured to fair value of $43 million, which resulted in a gain of $28 million that was recognized in the first quarter of 2017 and included in other operating income, net.

Two transactions related to the Bai Brands Merger were recognized separately from the acquisition of assets and assumptions of liabilities of Bai Brands:

- The Company paid certain seller transaction costs, which included $2 million to reimburse Bai Brands for payments made on behalf of the Company for buyer acquisition-related costs, which were recorded as SG&A expenses. The remainder of the seller transaction costs paid by the Company were accounted for by the Company as part of the consideration transferred.
- Bai Brands had an executory contract as of January 31, 2017, which compensated certain counterparties with Profit Interest Units from Bai Brands (the “Predecessor PIUs”). The Predecessor PIUs were based upon the counterparties completing service requirements and various performance criteria. As a result of the Bai Brands Merger, these Predecessor PIUs have fully vested and were converted into cash as of January 31, 2017 based upon the consideration paid by the Company to acquire Bai Brands. The cash was placed in escrow and is released from escrow to the counterparties on certain anniversary dates, as long as the counterparties are not in breach of the executory contract.

Although none of the costs of these benefits have been paid by the Company, DPS will record SG&A expenses for the deferred compensation amounts payable to these counterparties by Bai Brands. For the year ended December 31, 2017, the Company recognized approximately $6 million of compensation expense related to performance on the executory contract. As of December 31, 2017, the total unrecognized compensation cost is $7 million and the period over which these costs are expected to be recognized is 9 months.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The Company’s preliminary purchase price, as of December 31, 2017, was $1,636 million, net of the Company's previous ownership interest. The components of the preliminary purchase price are presented below:

(in millions)	Preliminary Purchase Price
Cash paid to consummate Bai Brands Merger, net of the Company's previous ownership interest and cash acquired in the step acquisition	$ 1,552
Remaining holdback placed in escrow	86
Less: Seller transaction costs reimbursed to Bai Brands for payments made on behalf of the Company for its acquisition-related costs	(2)
Preliminary Purchase Price[1]	$ 1,636

(1) The preliminary purchase price excludes the impact of the Company's pre-existing ownership interest.

For the years ended December 31, 2017 and 2016, acquisition and integration-related expenses of $23 million and $3 million, respectively, were recognized in SG&A expenses.

Escrow/Holdback Liability

The following table provides a rollforward of the holdback placed in escrow from the date of the acquisition to December 31, 2017:

(in millions)	Indemnification Escrow (One Year)[2]	Indemnification Escrow (Four Years)[3]	Unrecognized Compensation Costs	Total Holdback Liability
Balance as of January 31, 2017	$ 80	$ 10	$ 13	$ 103
Working capital adjustment[1]	(11)	—	—	(11)
Recognized compensation costs	—	—	(6)	(6)
Balance as of December 31, 2017	$ 69	$ 10	$ 7	$ 86

(1) Amounts were initially placed in escrow to secure indemnification obligations of the sellers relating to the accuracy of representations and warranties and a working capital adjustment. During the year ended December 31, 2017, the Company and the former shareholders of Bai Brands agreed upon a working capital adjustment of $11 million. The Company is currently in arbitration under the terms of the Bai Merger Agreement for one remaining matter related to the working capital adjustment. The $11 million agreed-upon adjustment will be released back to the Company from escrow upon completion of arbitration.

(2) The initial term that these amounts were to be held in escrow was one year from the date of the acquisition. In January 2018, the Company notified the trustee that the funds should remain in escrow pending resolution of certain indemnification obligations. As a result, the Company has reclassified this portion of the restricted cash and the corresponding holdback liability to non-current.

(3) The escrow and corresponding holdback liability, net of any claims, is anticipated to be released approximately 4 years after the acquisition date, subject to certain administrative conditions and resolution of certain indemnification obligations.

The acquisition consideration held in escrow does not meet the definition of contingent consideration as provided under U.S. GAAP. The amount held in escrow was included in the preliminary purchase price as representations and warranties were expected to be valid as of the acquisition date. The escrow is included in restricted cash along with a corresponding amount in the liability section of the Consolidated Balance Sheets, which is allocated between other current liabilities and other non-current liabilities. Refer to Note 17 for additional information on location of the restricted cash on the Consolidated Balance Sheets.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Preliminary Purchase Price Allocation
The following table summarizes the preliminary allocation, as of December 31, 2017, of the fair value of the assets acquired and liabilities assumed by major class for the Bai Brands Merger:

(in millions)	Fair Value	Useful Life
Property, plant & equipment	$4	5 - 10 years
Customer relationships	30	7 years
Non-compete agreements	22	2 - 4 years
Brands	1,073	Indefinite
Goodwill	568	Indefinite
Assumed liabilities, net of acquired assets	(18)	N/A
Total	$1,679	

The acquisition was accounted for as a business combination, and the identifiable assets acquired and liabilities assumed were recorded at their estimated fair values at the date of acquisition. We have completed our preliminary valuation to determine the fair value of the identifiable assets acquired and liabilities assumed. The fair values of the assets acquired were determined using various valuation techniques, including an income approach. The fair value measurements were primarily based on significant inputs that are not directly observable in the market and are considered Level 3 under the fair value measurements and disclosure framework. Key assumptions include cash flow projections of Bai Brands and the discount rate applied to those cash flows. The excess of the purchase price over the estimated fair values was recorded as goodwill.
In connection with this acquisition, the Company has now recorded goodwill of $568 million, which is deductible for tax purposes. The goodwill recognized was attributable to certain tax benefits the Company will realize over time, Bai Brands' management team and growth opportunities in a “better-for-you” beverage segment.
The Company recorded $36 million for the fair value of contingent liabilities assumed upon acquisition primarily related to existing manufacturing contracts. The fair value of the contingent liabilities was determined using discounted cash flows on expected future payments related to these contracts. The contingent liabilities will be evaluated each reporting period based on events and circumstances which may impact future payments under these contracts, and any changes in fair value will be recorded in the Company's Consolidated Statements of Income. During the fourth quarter of 2017, the Company renegotiated one of the existing manufacturing contracts assumed upon acquisition. Based on the terms of the amended contract, the Company recognized a $21 million benefit, which was recorded in other operating (income) expense, net.
Pro Forma Information
The Company’s acquisition of Bai Brands is strategically significant to the future growth prospects of the Company; however at the time of the acquisition, the historical results of Bai Brands were immaterial to the Company’s consolidated financial results. Assuming the results of Bai Brands had been included in operations beginning on January 1, 2016, the estimated pro forma net operating revenues of the Company for the years ended December 31, 2017 and 2016 would have been approximately $6,692 million and $6,493 million, respectively. The estimated pro forma net income, which includes the alignment of accounting policies, the effect of fair value adjustments related to the Bai Brands Merger, the associated tax effects and the impact of the additional debt to finance the Bai Brands Merger, for the years ended December 31, 2017 and 2016 would have been approximately $1,058 million and $789 million, respectively. This estimated pro forma information is not necessarily indicative of the results that actually would have occurred had the Bai Brands Merger been completed on the date indicated or the future operating results.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Actual Results of Bai Brands
The following table presents the actual results of Bai Brands since the acquisition date that are included in the year ended December 31, 2017, as well as a reconciliation to the Company's consolidated results of operations:

(in millions)	For the Year Ended December 31, 2017
Net sales - Bai Brands	$ 222
Intercompany sales to Packaged Beverages Excluding Bai[1]	(158)
Incremental impact to consolidated net sales	$ 64
Net loss - Bai Brands	$ (17)
Impact of intercompany activity with Packaged Beverages Excluding Bai[1]	(4)
Incremental impact to consolidated net income	$ (21)

(1) Impact of intercompany activity includes the elimination of intercompany net sales and the deferral of gross profit recognition on shipments of product still in Packaged Beverages Excluding Bai inventory for the year ended December 31, 2017, net of tax.

2016 ACQUISITION
Industria Embotteladora de Bebidas Mexicanas and Embotelladora Mexicana de Agua, S.A. de C.V.
On September 13, 2016, Industria Embotteladora de Bebidas Mexicanas ("IEBM") and Embotelladora Mexicana de Agua, S.A. de C.V. ("EMA"), previously 50:50 joint ventures between a subsidiary of the Company and Acqua Minerale San Benedetto S.P.A. ("San Benedetto"), became wholly-owned subsidiaries of the Company as a result of the Company's agreement to purchase all of the outstanding shares of IEBM and EMA owned by San Benedetto. The Company paid approximately $15 million in cash for all of the outstanding shares of IEBM and EMA owned by San Benedetto. The Company's equity interest in IEBM and EMA of $10 million was remeasured to fair value, which resulted in a non-taxable gain of $5 million which was recognized during 2016 and included in other operating (income) expense, net.
The acquisition was accounted for as a step-acquisition within a business combination, and the identifiable assets acquired and liabilities assumed were recorded at their estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair values was recorded as goodwill.The following table summarizes the preliminary allocation of fair value of the assets acquired and liabilities assumed by major class for the step-acquisition when the Company gained control:

(in millions)	Fair Value	Useful Life
Property, plant & equipment	$ 2	1 - 5 years
Brands: indefinite-lived	1	—
Goodwill[1]	8	—
Cash	17	—
All other assets, net of liabilities assumed	2	—
Total	$ 30	

(1) The goodwill associated with this step-acquisition was recorded to the Company's Latin America Beverages reporting unit and is not deductible for tax purposes.

Beginning in September 2016, IEBM's and EMA's results of operations were fully consolidated in the Company's Consolidated Statements of Income. Prior to September 2016, the Company's 50% share of IEBM's and EMA's results of operations was reported in equity in earnings of unconsolidated subsidiaries, net of tax, in the Company's Consolidated Statements of Income. The Company has not presented pro forma results of operations or amounts of revenue and earnings since the acquisition date because the acquisition is not material to the Company's Consolidated Financial Statements.

INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

The Company has an ownership interest in BA Sports Nutrition, LLC of 15.5%. The investment is accounted for as an equity method investment as the Company is deemed to have the ability to exercise influence through more than a minor interest in the investee in accordance with U.S. GAAP. The Company has no other significant investments in unconsolidated subsidiaries. Refer to Note 20 for additional information on the subsequent investment in Core Nutrition LLC ("Core").

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

4. Goodwill and Other Intangible Assets
Changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016, by reporting unit, are as follows:

(in millions)	Beverage Concentrates	WD Reporting Unit[(1)]	DSD Reporting Unit[(1)]	Bai	Latin America Beverages	Total
Balance as of January 1, 2016						
Goodwill	$ 1,733	$ 1,222	$ 189	$—	$ 24	$3,168
Accumulated impairment losses	—	—	(180)	—	—	(180)
	1,733	1,222	9	—	24	2,988
Foreign currency translation	—	—	—	—	(3)	(3)
Acquisition[(2)]	—	—	—	—	8	8
Balance as of December 31, 2016						
Goodwill	1,733	1,222	189	—	29	3,173
Accumulated impairment losses	—	—	(180)	—	—	(180)
	1,733	1,222	9	—	29	2,993
Foreign currency translation	—	—	—	—	—	—
Acquisition[(3)]	—	—	—	568	—	568
Balance as of December 31, 2017						
Goodwill	1,733	1,222	189	568	29	3,741
Accumulated impairment losses	—	—	(180)	—	—	(180)
	$ 1,733	$ 1,222	$ 9	$568	$ 29	$3,561

(1) The Packaged Beverages Excluding Bai segment is comprised of two reporting units, the Direct Store Delivery ("DSD") system and the Warehouse Direct ("WD") system.
(2) Goodwill was recorded to the Latin America Beverages reporting unit during 2016 as a result of the step acquisition of IEBM and EMA. Refer to Note 3 for additional information.
(3) Goodwill was recorded to Bai during 2017 as a result of the Bai Brands Merger. Refer to Note 3 for additional information about the Bai Brands Merger.

The net carrying amounts of other intangible assets as of December 31, 2017 and 2016 are as follows:

	December 31, 2017			December 31, 2016		
(in millions)	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets with indefinite lives:						
Brands[(1)]	$3,694	$ —	$3,694	$2,621	$ —	$2,621
Distribution rights[(2)]	32	—	32	27	—	27
Intangible assets with finite lives:						
Customer relationships[(1)]	106	(79)	27	76	(76)	—
Non-compete agreements[(1)]	22	(2)	20	—	—	—
Distribution rights	18	(10)	8	16	(8)	8
Brands	29	(29)	—	29	(29)	—
Bottler agreements	19	(19)	—	19	(19)	—
Total	$3,920	$ (139)	$3,781	$2,788	$ (132)	$2,656

(1)

As a result of the Bai Brands Merger, the Company recorded indefinite lived brand assets of $1,073 million and definite lived customer relationships and non-compete agreements of $30 million and $22 million respectively. Refer to Note 3 for additional information. Indefinite lived brand assets were additionally impacted by a $1 million increase due to foreign currency translation, which was offset by the $1 million write-off of the Aguafiel brand as described below in Results of Our Impairment Analyses.

(2) In 2017, the Company reacquired certain indefinite lived distribution rights for $5 million.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Amortization expense for intangible assets with finite lives was $7 million, $3 million and $6 million for the years ended December 31, 2017, 2016 and 2015, respectively.
Amortization expense of these intangible assets over the next five years is expected to be the following:

	For the Years Ended December 31,				
(in millions)	2018	2019	2020	2021	2022
Projected amortization expense for intangible assets with finite lives	$ 15	$ 14	$ 9	$ 6	$ 5

In accordance with U.S. GAAP, the Company conducts impairment tests of goodwill and indefinite-lived intangible assets annually, as of October 1, or more frequently if circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of impairment testing, the Company assigns goodwill to the reporting unit that benefits from the synergies arising from each business combination and also assigns indefinite-lived intangible assets to its reporting units. The Company defines reporting units as Beverage Concentrates, Latin America Beverages and Packaged Beverages' three reporting units, DSD, WD and Bai.
The impairment test for indefinite lived intangible assets encompasses calculating a fair value of an indefinite lived intangible asset and comparing the fair value to its carrying value. If the carrying value exceeds the estimated fair value, impairment is recorded. The impairment tests for goodwill include comparing a fair value of the respective reporting unit with its carrying value, including goodwill and considering any indefinite lived intangible asset impairment charges ("Step 1"). If the carrying value exceeds the estimated fair value, impairment is indicated and a second step analysis must be performed. Refer to Note 2 for additional information about the Company's calculations of estimated fair value for indefinite lived intangible assets.
The ranges of discount rates used for the impairment analyses for the years ended December 31, 2017, 2016 and 2015 were as follows:

	2017 Range		2016 Range		2015 Range	
	Low	High	Low	High	Low	High
Goodwill	5.00%	8.00%	5.00%	9.00 %	5.00%	9.10 %
Intangible assets - brands	6.70%	8.00%	7.25%	10.25%	7.25%	10.35%

Results of our Impairment Analyses
2017
As of October 1, 2017, the results of the annual impairment tests indicated no impairment of the Company's goodwill or brands was required except for a $1 million non-cash charge to fully impair Aguafiel. The estimated fair value of each reporting unit exceeded the carrying value for all of the Company's goodwill by at least 100%, except for Bai, which was 11%.
2016
As of October 1, 2016, the results of the annual impairment tests indicated no impairment of the Company's goodwill or brands was required. The estimated fair value of each reporting unit exceeded the carrying value for all of the Company's goodwill by at least 100%.
2015
As of October 1, 2015, the results of the annual impairment tests indicated no impairment of the Company's goodwill or brands was required, except for a $7 million non-cash charge to fully impair Garden Cocktail, a Canadian brand recorded in the WD reporting unit. The estimated fair value of each reporting unit exceeded the carrying value for all of the Company's goodwill by at least 100%.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Comparison of Fair Value to Carrying Value - Indefinite-Lived Brands
The results of the impairment analysis of our indefinite-lived brands as of October 1, 2017, 2016 and 2015 are shown below:

(in millions)	2017		2016		2015	
Headroom Percentage	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
0 - 10%[1]	$1,122	$ 1,073	$—	$ —	$—	$ —
11 - 20%	—	—	—	—	—	—
21 - 50%	—	—	—	—	—	—
51 - 100%	1,011	655	—	—	—	—
> 100%	16,508	1,971	17,745	2,622	15,647	2,628
	$18,641	$ 3,699	$17,745	$ 2,622	$15,647	$ 2,628

(1) The Bai brand was acquired nine months prior to the impairment measurement date.

5. Income Taxes
U.S. TAX REFORM
The legislation commonly referred to as The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. The TCJA reduced the U.S. federal statutory tax rate from 35% to 21% effective January 1, 2018, made changes to the international tax rules, repealed the domestic manufacturing deduction effective January 1, 2018, and allowed for full expensing of certain capital purchases from September 28, 2017 through December 31, 2022.
The Company recorded an income tax benefit of $297 million in the fourth quarter as a result of the TCJA, which was comprised of the following:

- An income tax benefit of $328 million primarily due to reducing its net U.S. deferred tax liabilities for the 14% decrease in the U.S. federal statutory tax rate.
- Income tax expense of $31 million due to the establishment of a valuation allowance for all unused foreign tax credit carryforwards as of December 31, 2017 as the Company no longer believes that any benefit will be realized from these foreign tax credit carryforwards due to U.S. Tax Reform changes including the elimination of tax on foreign dividends.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin ("SAB") 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which provides guidance on accounting for the impact of the TCJA, in effect allowing an entity to use a methodology similar to the measurement period in a business combination. Pursuant to the disclosure provisions of SAB 118, as of December 31, 2017 the Company has not completed its accounting for the tax effects of the TCJA. The Company has recorded a reasonable estimate of the impact from the TCJA, but is still analyzing the TCJA and refining our calculations. Additionally, future guidance from the IRS, SEC, or the FASB could result in changes to our accounting for the tax effects of the TCJA.
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries was as follows:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
U.S.	$1,085	$1,169	$1,070
Non-U.S.	88	114	114
Total	$1,173	$1,283	$1,184

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The provision for income taxes has the following components:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Current:			
Federal	$240	$311	$307
State	37	50	52
Non-U.S.	19	44	32
Total current provision	296	405	391
Deferred:			
Federal[1]	(218)	18	21
State	14	8	7
Non-U.S.	3	3	1
Total deferred provision	(201)	29	29
Total provision for income taxes	$95	$434	$420

(1) For the year ended December 31, 2017, the deferred federal provision for income taxes was impacted by the TCJA.

The following is a reconciliation of the provision for income taxes computed at the U.S. federal statutory tax rate to the provision for income taxes reported in the Consolidated Statements of Income:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Statutory federal income tax of 35%	$411	$449	$414
State income taxes, net[1]	34	38	39
U.S. federal domestic manufacturing benefit	(27)	(29)	(29)
Impact of non-U.S. operations	(11)	(8)	(7)
Impact of the TCJA	(297)	—	—
Other[2][3]	(15)	(16)	3
Total provision for income taxes	$95	$434	$420
Effective tax rate	8.1 %	33.8 %	35.5 %

(1) For the year ended December 31, 2017, the provision for income taxes included an income tax benefit of $5 million due primarily to an agreement for an improved filing group with a state tax authority.

(2) For the year ended December 31, 2017, the provision for income taxes included an income tax benefit of $19 million due to the adoption of ASU 2016-09. Refer to Notes 1 and 2 for additional information on the impact of the adoption of ASU 2016-09 on the Company's consolidated financial statements.

(3) For the year ended December 31, 2016, the provision for income taxes included an income tax benefit of $17 million driven primarily by a restructuring of the ownership of our Canadian business.

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Deferred tax assets (liabilities) were comprised of the following as of December 31, 2017 and 2016:

(in millions)	December 31, 2017	December 31, 2016
Deferred income tax assets:		
Deferred revenue	$ 282	$ 449
Accrued liabilities	50	67
Net operating loss and credit carryforwards	39	37
Compensation	29	51
Pension and PRMB	4	14
Other	20	28
	424	646
Deferred income tax liabilities:		
Intangible assets and goodwill	(793)	(1,174)
Fixed assets	(123)	(189)
Other	(19)	(19)
	(935)	(1,382)
Valuation allowance[1]	(41)	(14)
Net deferred income tax liability[2]	$ (552)	$ (750)

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(1) As of December 31, 2017, the Company's valuation allowance was comprised of $5 million related to a foreign operation which was established as part of the separation transaction and $36 million of foreign tax credits as the Company does not believe that the benefits will be realized in future years as a result of the TCJA, as discussed above.

(2) As of December 31, 2017, the Company's net deferred income tax liability was impacted by the TCJA.

As of December 31, 2017, the Company had $39 million in tax effected credit carryforwards and net operating loss carryforwards. Of the Company's $36 million of foreign tax credit carryforwards, $18 million were generated in 2011 and will expire in 2020. The remaining state net operating loss and credit carryforwards will expire in periods beyond the next five years.

The Company previously recorded no deferred income taxes on undistributed earnings from non-U.S. subsidiaries because DPS considered the earnings to be indefinitely reinvested or because the Company’s outside tax basis exceeded book basis. The international tax rules of the TCJA resulted in the recognition of all previously unrecognized and current year earnings and profits determined under U.S. income tax principles ("E&P") of $233 million, the tax effect of which was entirely offset by foreign tax credits. Prior to the TCJA, the Company had undistributed U.S. GAAP earnings in non-U.S. subsidiaries of approximately $198 million and $204 million, and undistributed E&P in non-U.S. subsidiaries of approximately $233 million and $195 million, both as of December 31, 2017 and 2016, respectively.

An actual repatriation from our non-U.S. subsidiaries could still be subject to additional foreign withholding taxes. The Company has analyzed our global working capital and cash requirements and continues to be indefinitely reinvested in its undistributed earnings except for amounts in excess of its working capital and cash requirements. The Company has recorded potential tax liabilities attributable to a repatriation and have determined that the provisional estimate for withholding taxes was not significant as of December 31, 2017.

The Company files income tax returns for U.S. federal purposes and in various state jurisdictions. The Company also files income tax returns in various foreign jurisdictions, principally Canada and Mexico. The U.S. and most state income tax returns for years prior to 2014 are closed to examination by applicable tax authorities. Mexican income tax returns are generally open for tax years 2008 and forward and Canadian income tax returns are open for audit for tax

years 2010 and forward. The Canada Revenue authority (the "CRA") has completed its audit of the 2010 tax year, and the Company is currently pursuing U.S. Competent Authority relief through the IRS related to an adjustment proposed by the CRA.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following is a reconciliation of the changes in the gross balance of unrecognized tax benefits for the years ended December 31, 2017, 2016 and 2015:

	December 31,		
(in millions)	2017	2016	2015
Beginning balance	$27	$19	$13
Increases related to tax positions taken during the current year	—	—	—
Increases related to tax positions taken during the prior year	2	12	10
Decreases related to tax positions taken during the prior year	(4)	—	(1)
Decreases related to settlements with taxing authorities	(7)	(1)	(2)
Decreases related to lapse of applicable statute of limitations	(1)	(3)	(1)
Ending balance	$17	$27	$19

The total amount of unrecognized tax benefits that, if recognized, would reduce the effective tax rate is $14 million after considering the federal impact of state income taxes. During the next twelve months, the Company does not expect a significant change to its unrecognized tax benefits.

The Company accrues interest and penalties on its uncertain tax positions as a component of its provision for income taxes. The Company recognized a $3 million benefit and $1 million of expense related to interest and penalties for uncertain tax positions for the years ended December 31, 2017 and 2015, respectively. The Company recognized no interest and penalties for uncertain tax positions for the year ended December 31, 2016. The Company had a total of $2 million and $5 million accrued for interest and penalties for its uncertain tax positions reported as part of other non-current liabilities as of December 31, 2017 and 2016, respectively.

6. Employee Benefit Plans

PENSION PLANS

Overview

The Company has U.S. and foreign pension plans which provide benefits to a defined group of employees. The Company has several non-contributory defined benefit plans, each having a measurement date of December 31. To participate in the defined benefit plans, eligible employees must have been employed by the Company for at least one year. Employee benefit plan obligations and expenses included in the Company's Audited Consolidated Financial Statements are determined using actuarial analyses based on plan assumptions including employee demographic data such as years of service and compensation, benefits and claims paid and employer contributions, among others. The Company also participates in various multi-employer defined benefit plans.

The Company's largest U.S. defined benefit pension plan, which is a cash balance plan, was suspended and the accrued benefit was frozen effective December 31, 2008. Participants in this plan no longer earn additional benefits for future services or salary increases. The cash balance plans maintain individual recordkeeping accounts for each participant which are annually credited with interest credits equal to the 12-month average of one-year U.S. Treasury Bill rates, plus 1%, with a required minimum rate of 5%.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Financial Statement Impact
The following tables set forth amounts recognized in the Company's financial statements and the pension plans' funded status as of December 31, 2017 and 2016:

(in millions)	As of December 31, 2017	2016
Projected Benefit Obligations		
As of beginning of year	$216	$206
Service cost	3	3
Interest cost	9	10
Actuarial losses (gains), net	12	9
Benefits paid	(3)	(3)
Currency exchange adjustments	—	(1)
Settlements	(7)	(8)
As of end of year	$230	$216
Fair Value of Plan Assets		
As of beginning of year	$177	$169
Actual return on plan assets	23	11
Employer contributions	23	8
Benefits paid	(3)	(3)
Currency exchange adjustments	—	—
Settlements	(7)	(8)
As of end of year	$213	$177
Funded status of plan / net amount recognized	$(17)	$(39)
Net amount recognized consists of:		
Current liabilities	$(1)	$(1)
Non-current liabilities	(16)	(38)
Net amount recognized	$(17)	$(39)

The accumulated benefit obligations for the defined benefit pension plans were $227 million and $214 million as of December 31, 2017 and 2016, respectively. The pension plan assets and the projected benefit obligations of DPS' U.S. pension plans represent approximately 93% of the total plan assets and 91% of the total projected benefit obligation of all plans combined as of December 31, 2017. The following table summarizes key pension plan information regarding plans whose accumulated benefit obligations exceed the fair value of their respective plan assets:

(in millions)	As of December 31, 2017	2016
Aggregate projected benefit obligation	$92	$201
Aggregate accumulated benefit obligation	91	200
Aggregate fair value of plan assets	75	163

79

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following table summarizes the components of the net periodic benefit cost and changes in plan assets and benefit obligations recognized in OCI for the stand alone U.S. and foreign plans for the years ended December 31, 2017, 2016 and 2015:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Net Periodic Benefit Costs			
Service cost	$3	$3	$3
Interest cost	9	10	9
Expected return on assets	(8)	(8)	(9)
Amortization of net actuarial loss	4	3	4
Settlements	1	2	3
Net periodic benefit costs	$9	$10	$10
Changes Recognized in OCI			
Settlement effects	$(1)	$(2)	$(3)
Current year net actuarial (gain) loss	(3)	7	2
Recognition of net actuarial loss	(4)	(4)	(4)
Total recognized in OCI	$(8)	$1	$(5)

The Company uses the corridor approach for amortization of actuarial gains or losses. The corridor is calculated as 10% of the greater of the plans' projected benefit obligation or assets. The amortization period for plans with active participants is the average future service of covered active employees, and the amortization period for plans with no active participants is the average future lifetime of plan participants. The estimated net actuarial loss for the defined benefit pension plans that will be amortized from AOCL into periodic benefit cost in 2018 is approximately $3 million. The estimated prior service cost for the defined benefit pension plans that will be amortized from AOCL into periodic benefit costs in 2018 is not significant.

The following table summarizes amounts included in AOCL for the plans as of December 31, 2017 and 2016:

	As of December 31,	
(in millions)	2017	2016
Prior service cost	$ 1	$ 1
Net losses	46	54
Amounts in AOCL	$ 47	$ 55

Contributions and Expected Benefit Payments

The following table summarizes the contributions made to the Company's pension plans for the years ended December 31, 2017 and 2016, as well as the projected contributions for the year ending December 31, 2018:

	Projected	For the Year ended December 31,	
(in millions)	2018	2017	2016
Pension Plan Contributions[1]	$ 1	$ 23	$ 8

(1) The contributions for the years ended December 31, 2017 and 2016 included $22 million and $7 million, respectively, of discretionary contributions.

The following table summarizes the expected future benefit payments cash activity for the Company's pension plans for the next ten years:

(in millions)	2018	2019	2020	2021	2022	2023-2027
Pension plan expected future benefit payments	$ 11	$ 11	$ 12	$ 13	$ 13	$ 66

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions
The Company's pension expense was calculated based upon a number of actuarial assumptions including discount rates, retirement age, mortality rates, compensation rate increases and expected long-term rate of return on plan assets for pension benefits.
The discount rate utilized to determine the Company's projected benefit obligations as of December 31, 2017 and 2016, as well as projected 2018 net periodic benefit cost for U.S. plans, reflects the current rate at which the associated liabilities could be effectively settled as of the end of the year. The Company set its rate to reflect the yield of a portfolio of high quality, fixed-income debt instruments that would produce cash flows sufficient in timing and amount to settle projected future benefits.
For the years ended December 31, 2017, 2016 and 2015, the expected long-term rate of return on U.S. pension fund assets held by the Company's pension trusts was determined based on several factors, including the impact of active portfolio management and projected long-term returns of broad equity and bond indices. The plans' historical returns were also considered. The expected long-term rate of return on the assets in the plans was based on an asset allocation assumption for fixed income and equity are as follows:

	Fixed Income			Equity		
	2017	2016	2015	2017	2016	2015
Asset Allocation Assumption	80 %	75 %	75 %	20 %	25 %	25 %
Expected rate of long term return	4.40%	3.20%	3.70%	7.80%	8.50%	8.70%

Expected mortality is a key assumption in the measurement for pension benefit obligations. During the year ended December 31, 2017, the Company used the RP-2014 mortality tables and the Mortality Improvement Scale MP-2017 published by the Society of Actuaries' Retirement Plans Experience Committee for the Company's U.S. plans. During the year ended December 31, 2016, the Company used the RP-2014 mortality tables and the Mortality Improvement Scale MP-2016 for the Company's U.S. plans.
The following table summarizes the weighted-average assumptions used to determine benefit obligations at the plan measurement dates for U.S. and foreign pension plans:

	U.S. Pension Plans		Foreign Pension Plans	
	2017	2016	2017	2016
Weighted-average discount rate	3.70%	4.25%	4.90%	5.25%
Rate of increase in compensation levels	3.00%	3.00%	3.89%	3.89%

The following table summarizes the weighted average actuarial assumptions used to determine the net periodic benefit costs for U.S. and foreign pension plans for the years ended December 31, 2017, 2016 and 2015:

	U.S. Pension Plans			Foreign Pension Plans		
	2017	2016	2015	2017	2016	2015
Weighted-average discount rate	4.25%	4.65%	4.33%	7.09%	6.46%	6.66%
Expected long-term rate of return on assets	4.50%	5.00%	5.25%	7.13%	7.07%	6.72%
Rate of increase in compensation levels	3.00%	3.00%	3.00%	4.30%	4.32%	4.47%

Investment Policy and Strategy
DPS has established formal investment policies for the assets associated with defined benefit pension plans. The Company's investment policy and strategy are mandated by the Company's Investment Committee. The overriding investment objective is to provide for the availability of funds for pension obligations as they become due, to maintain an overall level of financial asset adequacy and to maximize long-term investment return consistent with a reasonable

level of risk. DPS' pension plan investment strategy includes the use of actively-managed securities. Investment performance both by investment manager and asset class is periodically reviewed, as well as overall market conditions with consideration of the long-term investment objectives. None of the plan assets are invested directly in equity or debt instruments issued by DPS. It is possible that insignificant indirect investments exist through its equity holdings. The equity and fixed income investments under DPS' sponsored pension plan assets are currently well diversified.

The plans' asset allocation policy is reviewed at least annually. Factors considered when determining the appropriate asset allocation include changes in plan liabilities, an evaluation of market conditions, tolerance for risk and cash requirements for benefit payments. The investment policy for the U.S. defined benefit pension plans contains allowable ranges in asset mix as outlined in the table below:

	Target Range	
Asset Category	2017	2016
U.S. equity securities	5% - 15%	16% - 20%
International equity securities	5% - 15%	6% - 8%
U.S. fixed income	70% - 90%	69% - 81%

The asset allocations for the U.S. defined benefit pension plans for December 31, 2017 and 2016 are as follows:

	Target	As of December 31,	
Asset Category	2018	2017	2016
Equity securities	20 %	20 %	25 %
Fixed income	80 %	80 %	75 %
Total	100 %	100 %	100 %

POST-RETIREMENT MEDICAL PLANS

The Company has several non-contributory defined benefit PRMB plans, each having a measurement date of December 31. The majority of these PRMB plans have been frozen. To participate in the defined benefit plans, eligible employees must have been employed by the Company for at least one year. The PRMB plans are limited to qualified expenses and are subject to deductibles, co-payment provisions and other provisions.

In total, the Company's PRMB plans had a projected benefit obligation of $6 million and $6 million as of December 31, 2017 and 2016, respectively, and the fair value of PRMB plan assets was $7 million and $6 million as of December 31, 2017 and 2016, respectively. As of December 31, 2017, the net amount recognized consisted of $4 million of non-current assets and $3 million of non-current liabilities. As of December 31, 2016, the net amount recognized consisted of $3 million of non-current assets and $3 million of non-current liabilities.

For the years ended December 31, 2017, 2016, and 2015 , the net periodic benefit costs of the PRMB plans had no impact on our Consolidated Statements of Income.

For the years ended December 31, 2017 and 2015, the total change recognized in OCI related to our PRMB plans was $1 million. For the year ended December 31, 2016 there was no change recognized in OCI related to our PRMB plans.

FAIR VALUE OF THE PENSION AND POSTRETIREMENT PLAN ASSETS

The fair value hierarchy (refer to Note 2 for further information) is not only applicable to assets and liabilities that are included in our consolidated balance sheets, but is also applied to certain other assets that indirectly impact our consolidated financial statements. Assets contributed by the Company to pension or other PRMB plans become the property of the individual plans. Even though the Company no longer has control over these assets, DPS is indirectly impacted by subsequent fair value adjustments to these assets. The actual return on these assets impacts the Company's future net periodic benefit cost, as well as amounts recognized in our consolidated balance sheets. As such, the Company uses the fair value hierarchy to measure the fair value of assets held by our various pension and PRMB plans.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following tables present the major categories of plan assets and the respective fair value hierarchy for the pension and post plan assets as of December 31, 2017 and 2016:

	Fair Value Measurements as of December 31, 2017			
(in millions)	Fair Value Hierarchy Level	Total	Pension Assets	PRMB Assets
Cash and cash equivalents	Level 1	$2	$ 2	$ —
Equity securities[1]				
U.S. Large-Cap equities[2]	Level 2	21	20	1
International equities[2]	Level 2	17	17	—
Fixed income securities				
International bonds[2]	Level 2	16	16	—
Fixed income commingled funds[3]	Level 2	164	158	6
Total assets		$220	$ 213	$ 7

	Fair Value Measurements as of December 31, 2016			
(in millions)	Fair Value Hierarchy Level	Total	Pension Assets	PRMB Assets
Cash and cash equivalents	Level 1	$4	$ 4	$ —
Equity securities[1]				
U.S. Large-Cap equities[2]	Level 2	30	29	1
International equities[2]	Level 2	14	13	1
Fixed income securities				
International bonds[2]	Level 2	13	13	—
Fixed income commingled funds[3]	Level 2	122	118	4
Total assets		$183	$ 177	$ 6

(1) Equity securities are comprised of actively managed U.S. index funds and Europe, Australia, Far East ("EAFE") index funds.

(2) The NAV is based on the fair value of the underlying assets owned by the equity index fund or fixed income investment vehicle per share multiplied by the number of units held as of the measurement date and are classified as Level 2 assets.

(3) Fixed income commingled funds are comprised of a diversified portfolio of investment-grade corporate and government securities. Investments are provided by the investment managers using a unit price or NAV based on the fair value of the underlying investments of the funds.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

MULTI-EMPLOYER PLANS

The Company participates in three trustee-managed multi-employer defined benefit pension plans for union-represented employees under certain collective bargaining agreements. The risks of participating in these multi-employer plans are different from single-employer plans due to the following:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Company chooses to stop participating in some of its multi-employer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Contributions paid into the multi-employer plans are expensed as incurred. Multi-employer plan expense was as follows for the years ended December 31, 2017, 2016 and 2015:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Multi-employer Plan Expense			
Contributions to individually significant multi-employer plan	$ 1	$ 1	$ 1
Contributions to all other multi-employer plans	4	3	3
Total	$ 5	$ 4	$ 4

Individually Significant Multi-employer Plan

The Company participates in the following individually significant multi-employer plan as of December 31, 2017:

Legal name of the plan	Central States, Southeast and Southwest Areas Pension Fund ("Central States")
Plan's Employer Identification Number	36-6044243
Plan Number	001
Expiration dates of the collective bargaining agreements	February 17, 2018 - May 1, 2020[(2)]
FIP/RP Status Pending/Implemented[(1)]	Yes
PPA zone status as of December 31, 2016 and 2015	Red
Surcharge imposed	Yes

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(1) FIP/RP Status Pending/Implemented indicates the plan for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or implemented.

(2) Central States includes eight collective bargaining agreements. The largest agreement, which is set to expire February 29, 2020, covers approximately 50% of the employees included in Central States. Three of the collective bargaining agreements are set to expire during 2018, covering approximately 11% of the employees included in Central States.

The most recent Pension Protection Act ("PPA") zone status available as of December 31, 2017 and 2016 is for the plan's year-end as of December 31, 2016 and 2015. The plan has not utilized any extended amortization provisions that affect the calculation of the zone status.

The Company's contributions to the Central States did not exceed 5% of the total contributions made to the Central States for the years ended December 31, 2017, 2016 and 2015.

Future estimated contributions to the Central States based on the number of covered employees and the terms of the collective bargaining agreements are as follows:

(in millions)	For the Years Ended December 31, 2018	2019	2020	2021	2022
Future estimated contributions to the Central States	$1	$ 1	$ —	$ —	$ —

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

DEFINED CONTRIBUTION PLANS

The Company sponsors the SIP, which is a qualified 401(k) Retirement Plan that covers substantially all U.S.-based employees who meet certain eligibility requirements. This plan permits both pre-tax and after-tax contributions, which are subject to limitations imposed by Internal Revenue Code (the "Code") regulations. The Company matches employees' contributions up to specified levels.

The Company also sponsors the SSP, which is a non-qualified defined contribution plan for employees who are actively enrolled in the SIP and whose after-tax contributions under the SIP are limited by the Code compensation limitations. The Company's employer matching contributions to the SIP and SSP plans were approximately $20 million, $19 million and $17 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Employee and employer matching contributions under the (SSP) are maintained in a rabbi trust and are not readily available to the Company. Although participants direct the investment of these funds, the investments are classified as trading securities and are included in other non-current assets. As such, the Company uses the fair value hierarchy to measure the fair value of these trading securities as follows:

(in millions)	Fair Value Hierarchy Level	For the Year Ended December 31, 2017	2016
Marketable securities - trading	Level 1	$ 48	$ 35

The corresponding liability related to the deferred compensation plan is recorded in other non-current liabilities. Gains and losses in connection with these trading securities are recorded in other income, net, with an offset for the same amount recorded in SG&A expenses. There were $7 million and $3 million of gains associated with these trading securities for the years ended December 31, 2017 and 2016. No gains or losses were recorded in the year ended December 31, 2015.

Additionally, current participants in the SIP and SSP are eligible for an enhanced defined contribution (the "EDC"). Contributions begin accruing for plan participants after a one-year waiting period for participant entry into the plan and vest after three years of service with the Company. The Company made contributions of $21 million, $18 million, and $17 million to the EDC for the plan years ended December 31, 2017, 2016 and 2015, respectively.

7. Long-term Obligations and Borrowing Arrangements

LONG-TERM OBLIGATIONS

The following table summarizes the Company's long-term obligations as of December 31, 2017 and 2016:

(in millions)	December 31, 2017	December 31, 2016
Senior unsecured notes	$ 4,230	$ 4,325
Capital lease obligations	183	153
Subtotal	4,413	4,478
Less — current portion	(13)	(10)
Long-term obligations	$ 4,400	$ 4,468

SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM OBLIGATIONS

The following table summarizes the Company's short-term borrowings and current portion of long-term obligations as of December 31, 2017 and 2016:

(in millions)	Fair Value Hierarchy Level	December 31, 2017 Carrying Amount	Fair Value	December 31, 2016 Carrying Amount	Fair Value
Commercial paper	1	$ 66	$ 66	$ —	$ —

Current portion of long-term obligations:					
Capital lease obligations[1]	N/A	13		10	
Short-term borrowings and current portion of long-term obligations		$ 79	$ 66	$ 10	$ —

(1) Capital lease obligations are specifically excluded from the calculation of fair value under U.S. GAAP.

85

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

SENIOR UNSECURED NOTES
The Company's senior unsecured notes (collectively, the "Notes") consisted of the following carrying values and estimated fair values that are not required to be measured at fair value in the Consolidated Balance Sheets are as follows:

(in millions)			Fair Value Hierarchy Level	December 31, 2017		December 31, 2016	
Issuance	Maturity Date	Rate		Carrying Amount	Fair Value	Carrying Amount	Fair Value
2018 Notes[1]	May 1, 2018	6.82%	2	$—	$ —	$364	$ 389
2019 Notes	January 15, 2019	2.60%	2	250	251	250	254
2020 Notes	January 15, 2020	2.00%	2	250	248	250	248
2021-A Notes	November 15, 2021	3.20%	2	250	255	250	256
2021-B Notes	November 15, 2021	2.53%	2	250	249	250	248
2022 Notes	November 15, 2022	2.70%	2	250	248	250	247
2023 Notes	December 15, 2023	3.13%	2	500	504	500	500
2025 Notes	November 15, 2025	3.40%	2	500	508	500	498
2026 Notes	September 15, 2026	2.55%	2	400	378	400	370
2027 Notes[2]	June 15, 2027	3.43%	2	500	501	400	398
2038 Notes[1]	May 1, 2038	7.45%	2	125	179	250	347
2045 Notes[2]	November 15, 2045	4.50%	2	550	588	250	253
2046 Notes	December 15, 2046	4.42%	2	400	424	400	407
Principal amount				4,225	4,333	4,314	4,415
Adjusted for:							
Unamortized premiums, discounts, and debt issuance costs				(13)		(30)	
Adjustments to carrying value for interest rate swaps[3]				18		41	
Carrying amount				$4,230		$4,325	

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(1) In June 2017, the Company completed a tender offer for a portion of its 2018 Notes and its 2038 Notes, and in July 2017, the Company redeemed the remainder of its 2018 Notes. As a result of these transactions, the Company retired, at a premium, an aggregate principal amount of approximately $364 million of the 2018 Notes and approximately $125 million of the 2038 Notes. The total loss on early extinguishment of the 2018 Notes and the 2038 Notes was approximately $62 million, comprised of $75 million for the principal amount, the early tender premium, the make-whole premium, and the write off of deferred financing costs, partially offset by a $13 million gain on the termination of interest rate swap related to the 2038 Notes. Refer to Note 8 for additional information on the termination of the interest rate swap.

(2) In June 2017, the Company issued $400 million of senior unsecured notes, consisting of $100 million aggregate principal amount of 2027 Notes and $300 million aggregate principal amount of 2045 Notes in a private offering under Rule 144A under the Securities Act of 1933, as amended. The 2027 Notes and 2045 Notes have substantially identical terms, other than with respect to transfer restrictions and registration rights, as the previously issued 2027 Notes and 2045 Notes. A portion of the proceeds from the issuance of the 2027 Notes and 2045 Notes was used to complete the June 2017 tender offer and July 2017 redemption described in (1) above.

(3) Refer to Note 8 for additional information on the Company's interest rate swaps.

The indentures governing the Notes, among other things, limit the Company's ability to incur indebtedness secured by principal properties, to enter into certain sale and leaseback transactions and to enter into certain mergers or transfers

of substantially all of DPS' assets. The Notes are guaranteed by all of the Company's existing and future direct and indirect subsidiaries that guarantee any of the Company's other indebtedness. As of December 31, 2017, the Company was in compliance with all financial covenant requirements of the Notes.

The fair value amounts of long term debt were based on current market rates available to the Company. The difference between the fair value and the carrying value represents the theoretical net premium or discount that would be paid or received to retire all debt and related unamortized costs to be incurred at such date. The carrying amount includes the unamortized discounts and issuance costs on the issuance of debt and impact of interest rate swaps designated as fair value hedges and other hedge related adjustments. Refer to Note 8 for additional information regarding the notes subject to fair value hedges.

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

BORROWING ARRANGEMENTS

Commercial Paper Program

On December 10, 2010, the Company entered into a commercial paper program under which the Company may issue unsecured commercial paper notes (the "Commercial Paper") on a private placement basis up to a maximum aggregate amount outstanding at any time of $500 million. The maturities of the Commercial Paper will vary, but may not exceed 364 days from the date of issuance. The Company issues Commercial Paper as needed for general corporate purposes. The program is supported by the Revolver, which is discussed below. Outstanding Commercial Paper reduces the amount of borrowing capacity available under the Revolver and outstanding amounts under the Revolver reduce the Commercial Paper availability. Under this program, the Company had weighted average Commercial Paper borrowings of $56 million, $1 million and $23 million for the years ended December 31, 2017, 2016 and 2015, respectively, with maturities of 90 days or less. These Commercial Paper borrowings had a weighted average interest rate of 1.40%, 0.65% and 0.50% for the years ended December 31, 2017, 2016 and 2015, respectively.

Unsecured Credit Agreement

In March 2017, the Company entered into a new five-year unsecured credit agreement (the "Credit Agreement"), which provides for a $500 million revolving line of credit (the "Revolver"). This Credit Agreement and Revolver fully replaced the Company's previous unsecured credit agreement and revolving line of credit, which was due to expire on September 25, 2017 and was terminated on March 16, 2017. There were no principal borrowings outstanding under the previous unsecured credit agreement upon termination. The Company incurred debt issuance costs of approximately $1 million in connection with the Credit Agreement during the year ended December 31, 2017.

Borrowings under the Revolver bear interest at a floating rate per annum based upon the alternate base rate ("ABR") or the Eurodollar rate, in each case plus an applicable margin which varies based upon the Company's debt ratings. Rates range from 0.000% to 0.300% for the ABR loans and from 0.805% to 1.300% for Eurodollar loans. The ABR is defined as the greater of (a) JPMorgan Chase Bank's prime rate, (b) the Federal Reserve Bank of New York ("NYFRB") rate, as defined below, plus 0.500% and (c) the Adjusted LIBOR, as defined below, for a one month interest period plus 1.000%. The NYFRB rate is the greater of (a) the federal funds effective rate or (b) the overnight bank funding rate. The Adjusted LIBOR is the London interbank offered rate for dollars, adjusted for a statutory reserve rate set by the Board of Governors of the Federal Reserve System of the United States of America.

Additionally, the Revolver is available for the issuance of letters of credit, not to exceed $75 million. Letters of credit will reduce, on a dollar for dollar basis, the amount available under the Revolver.

The Credit Agreement further provides that the Company may request at any time, subject to the satisfaction of certain conditions, that the aggregate commitments under the facility be increased by a total amount not to exceed $250 million.

The Credit Agreement's representations, warranties, covenants and events of default are generally customary for investment grade credit and include a financial covenant that requires the Company to maintain a ratio of consolidated total debt (as defined in the Credit Agreement) to annualized consolidated EBITDA (as defined in the Credit Agreement) of no more than 3.50 to 1.00, tested quarterly. During the twelve month period following a Material Acquisition (as defined in the Credit Agreement) thereunder, the ratio may increase to no more than 4.00 to 1.00. Upon the occurrence of an event of default, among other things, amounts outstanding under the Credit Agreement may be accelerated and the commitments may be terminated. The Company's obligations under the Credit Agreement are guaranteed by certain of the Company's direct and indirect domestic subsidiaries on the terms set forth in the Credit Agreement. The Credit Agreement has a maturity date of March 16, 2022; however, with the consent of lenders holding more than 50% of the total commitments under the Credit Agreement and subject to the satisfaction of certain conditions, the Company may extend the maturity date for up to two additional one-year terms.

The following table provides amounts utilized and available under the Revolver as of December 31, 2017:

(in millions)	Amount Utilized	Balances Available

Revolver	$ —	$ 434
Letters of credit	—	75

As of December 31, 2017, the Company was in compliance with all financial covenant requirements relating to the Credit Agreement.

87

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Bridge Financing for Bai Brands Merger

On November 21, 2016, the Company entered into a commitment letter for a 364-day bridge loan facility (the "Bridge Facility") in an aggregate principal amount of up to $1,700 million, in order to ensure that financing would be available for the Bai Brands Merger. On January 31, 2017, in accordance with its terms, the commitment under the Bridge Facility was automatically terminated upon the Company's funding of the Bai Brands Merger.

Shelf Registration Statement

The Company filed a "well-known seasoned issuer" shelf registration statement with the SEC, effective September 2, 2016, which registered an indeterminate amount of securities for future sales. The Company's Board of Directors (the "Board") authorizes the amount of securities that the Company may issue. As of December 31, 2017, $450 million remained available to be issued under the Board's authorization.

Letters of Credit Facilities

In addition to the portion of the Revolver available for issuance of letters of credit, the Company has incremental letters of credit facilities. Under these facilities, $120 million is available for the issuance of letters of credit, $60 million of which was utilized as of December 31, 2017 and $60 million of which remains available for use.

8. Derivatives

DPS is exposed to market risks arising from adverse changes in:

- interest rates;
- FX rates; and
- commodity prices affecting the cost of raw materials and fuels.

The Company manages these risks through a variety of strategies, including the use of interest rate contracts, FX forward contracts, commodity forward and future contracts and supplier pricing agreements. DPS does not hold or issue derivative financial instruments for trading or speculative purposes.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

INTEREST RATES
Fair Value Hedges
The Company is exposed to the risk of changes in the fair value of certain fixed-rate debt attributable to changes in interest rates and manages these risks through the use of receive-fixed, pay-variable interest rate swaps. Any ineffectiveness is recorded as interest during the period incurred. The following table presents information regarding these interest rate swaps and the associated hedging relationships:

(in millions, except number of instruments)					Impact to the carrying value of long-term debt	
Period entered	Hedging relationship	Number of instruments	Method of measuring effectiveness	Notional value	December 31, 2017	December 31, 2016
November 2011	2019 Notes	2	Short cut method	$ 100	$ —	$ —
November 2011	2021-A Notes	2	Short cut method	150	(1)	—
November 2012	2020 Notes	5	Short cut method	120	(2)	(2)
December 2016	2021-B Notes	2	Short cut method	250	(4)	(2)
December 2016	2023 Notes	2	Short cut method	150	(3)	(1)
January 2017	2022 Notes[(2)]	4	Regression	250	17	24
June 2017	2038 Notes[(1)]	1	Regression	50	11	22
				$ 1,070	$ 18	$ 41

(1) In June 2017, and in connection with the partial redemption of the 2038 Notes, the Company modified and partially terminated the outstanding interest rate swap on the 2038 Notes with a notional amount of $100 million and maturing in May 2038. The modified interest rate swap has identical terms to the original interest rate swap, except for a reduced notional amount of $50 million. The Company received $13 million as settlement for the modification and partial termination of the swap. As a result of this transaction, the Company de-designated the original hedging relationship. Under the original hedging relationship, the Company recorded $26 million as an increase to the carrying value of debt due to changes in the fair market value of the debt, pull to par adjustments and ineffectiveness. The Company recognized a $13 million gain into earnings, which reduced the loss on early extinguishment of debt, as part of the partial redemption of the 2038 Notes. The remaining $13 million increase in the carrying value of the outstanding 2038 Notes will be amortized into earnings over the remaining term of the 2038 Notes. The Company then designated the new interest rate swap contract as a fair value hedge with a notional amount of $50 million and maturing in May 2038 in order to effectively convert a portion of the outstanding 2038 Notes from fixed-rate debt to floating-rate debt. The Company uses regression analysis to assess the prospective and retrospective effectiveness of this hedging relationship.

(2) In October 2016, the Company de-designated the hedging relationships between the four outstanding interest rate swaps and the 2022 Notes. The Company will amortize $25 million into earnings over the remaining term of the 2022 Notes which represents the increase to the carrying value of the debt upon de-designation consisting of changes in fair market value of the debt, pull to par adjustments and ineffectiveness recorded under the previous hedging relationship. The Company recorded the change in the fair value of the interest rate swaps after de-designation into interest expense. In January 2017, the Company re-designated the hedging relationships between the four outstanding interest rate swaps and the 2022 Notes, which were de-designated in 2016. The

Company uses regression analysis to assess the prospective and retrospective effectiveness of these hedging relationships.

FOREIGN EXCHANGE

Cash Flow Hedges

The Company's Canadian and Mexican businesses purchase certain inventory through transactions denominated and settled in U.S. dollars, a currency different from the functional currency of the Canadian and Mexican business. These inventory purchases are subject to exposure from movements in exchange rates. During the years ended December 31, 2017, 2016 and 2015, the Company utilized FX forward contracts designated as cash flow hedges to manage exposures resulting from changes in these foreign currency exchange rates. The intent of these FX contracts is to provide predictability in the Company's overall cost structure. These FX contracts, carried at fair value, have maturities between one and twelve months as of December 31, 2017. The Company had outstanding FX forward contracts with notional amounts of $48 million and $7 million as of December 31, 2017 and 2016.

COMMODITIES

Economic Hedges

DPS centrally manages the exposure to volatility in the prices of certain commodities used in its production process and transportation through forward and future contracts. The intent of these contracts is to provide a certain level of predictability in the Company's overall cost structure. During the years ended December 31, 2017, 2016 and 2015, the Company held forward and future contracts that economically hedged certain of its risks. In these cases, a natural hedging relationship exists in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of these instruments are recorded in net income throughout the term of the derivative instrument and are reported in the same line item of the Consolidated Statements of Income as the hedged transaction. Unrealized gains and losses are recognized as a component of unallocated corporate costs until the Company's operating segments are affected by the completion of the underlying transaction, at which time the gain or loss is reflected as a component of the respective segment's operating profit ("SOP"). The total notional values of derivatives related to economic hedges of this type were $199 million and $296 million as of December 31, 2017 and 2016, respectively.

FAIR VALUE OF DERIVATIVE INSTRUMENTS

The following table summarizes the fair value hierarchy and the location of the fair value of the Company's derivative instruments designated as hedging instruments within the Consolidated Balance Sheets as of December 31, 2017 and 2016:

(in millions)	Fair Value Hierarchy Level	Balance Sheet Location	December 31, 2017	December 31, 2016
Assets:				
Interest rate contracts	2	Prepaid expenses and other current assets	$ 3	$ 6
FX forward contracts	2	Prepaid expenses and other current assets	2	—
Interest rate contracts	2	Other non-current assets	16	21
Liabilities:				
Interest rate contracts	2	Other current liabilities	3	1
Interest rate contracts	2	Other non-current liabilities	8	7

The following table summarizes the fair value hierarchy and the location of the fair value of the Company's derivative instruments not designated as hedging instruments within the Consolidated Balance Sheets as of December 31, 2017 and 2016:

(in millions)	Fair Value Hierarchy Level

		Balance Sheet Location	December 31, 2017	December 31, 2016
Assets:				
Interest rate contracts	2	Prepaid expenses and other current assets	$ —	$ 4
Commodity contracts	2	Prepaid expenses and other current assets	27	9
Interest rate contracts	2	Other non-current assets	—	8
Commodity contracts	2	Other non-current assets	17	12
Liabilities:				
Commodity contracts	2	Other current liabilities	—	1

The fair values of commodity contracts, interest rate contracts and FX forward contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. The fair value of commodity contracts are valued using the market approach based on observable market transactions, primarily underlying commodities futures or physical index prices, at the reporting date. Interest rate contracts are valued using models based primarily on readily observable market parameters, such as LIBOR forward rates, for all substantial terms of the Company's contracts and credit risk of the counterparties. The fair value of FX forward contracts are valued using quoted forward FX prices at the reporting date. Therefore, the Company has categorized these contracts as Level 2.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

IMPACT OF CASH FLOW HEDGES

The following table presents the impact of derivative instruments designated as cash flow hedging instruments under U.S. GAAP to the Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2017, 2016 and 2015:

(in millions)	Amount of (Loss) Gain Recognized in Other Comprehensive Loss ("OCL")	Amount of (Loss) Gain Reclassified from AOCL into Income	Location of (Loss) Gain Reclassified from AOCL into Income
For the year ended December 31, 2017:			
Interest rate contracts	$ —	$ (9)	Interest expense
Foreign exchange forward contracts	(8)	(9)	Cost of sales
Total	$ (8)	$ (18)	
For the year ended December 31, 2016:			
Interest rate contracts	$ 2	$ (8)	Interest expense
Foreign exchange forward contracts	(2)	(1)	Cost of sales
Total	$ —	$ (9)	
For the year ended December 31, 2015:			
Interest rate contracts	$ (5)	$ (8)	Interest expense
Foreign exchange forward contracts	2	2	Cost of sales
Total	$ (3)	$ (6)	

There was no hedge ineffectiveness recognized in earnings for the years ended December 31, 2017, 2016 and 2015 with respect to derivative instruments designated as cash flow hedges. During the next 12 months, the Company expects to reclassify net losses of $7 million from AOCL into income.

IMPACT OF FAIR VALUE HEDGES

The following table presents the impact of derivative instruments designated as fair value hedging instruments under U.S. GAAP to the Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015:

(in millions)	Amount of Gain (Loss) Recognized in Income	Location of Gain (Loss) Recognized in Income
For the year ended December 31, 2017:		
Interest rate contracts[(1)(2)(3)]	$ 12	Interest expense
Interest rate contracts	13	Loss on early extinguishment of debt
Total	$ 25	

For the year ended December 31, 2016:		
Interest rate contracts[1][2][3]	$ 12	Interest expense
For the year ended December 31, 2015:		
Interest rate contracts[1][3]	$ 17	Interest expense

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(1) Includes amortization of the interest rate swap associated with the 2038 Notes which was de-designated in February 2015.

(2) Includes amortization of the interest rate swaps associated with the 2022 Notes which were de-designated in October 2016.

(3) Includes basis adjustments related to the 2038 Notes and 2022 Notes prior to de-designation.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following table presents the hedge ineffectiveness which was recognized in earnings with respect to derivative instruments designated as fair value hedges:

(in millions)	For the Year Ended December 31, 2017	2016	2015
Hedge ineffectiveness recognized in earnings	$ 1	$ —	$ 1

IMPACT OF ECONOMIC HEDGES

The following table presents the impact of derivative instruments not designated as hedging instruments under U.S. GAAP to the Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015:

(in millions)	Amount of Gain (Loss) Recognized in Income	Location of Gain (Loss) Recognized in Income
For the year ended December 31, 2017:		
Commodity contracts[1]	$ 32	Cost of sales
Commodity contracts[1]	4	SG&A expenses
Interest rate contracts[2]	1	Interest expense
Total	$ 37	
For the year ended December 31, 2016:		
Commodity contracts[1]	$ 11	Cost of sales
Commodity contracts[1]	18	SG&A expenses
Interest rate contracts[2]	(11)	Interest expense
Total	$ 18	
For the year ended December 31, 2015:		
Commodity contracts[1]	$ (24)	Cost of sales
Commodity contracts[1]	(14)	SG&A expenses
Total	$ (38)	

(1) Commodity contracts include both realized and unrealized gains and losses.
(2) Represents gains and losses on the interest rate contracts related to the 2022 Notes after the hedging relationship was de-designated in October 2016 until it was re-designated in January 2017.

The Company has exposure to credit losses from derivative instruments in an asset position in the event of nonperformance by the counterparties to the agreements. Historically, DPS has not experienced credit losses as a result of counterparty nonperformance. The Company selects and periodically reviews counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines and monitors the market position of the programs at least on a quarterly basis.

9. Stock-Based Compensation

Stock-based compensation expense is recorded in SG&A expenses in the Consolidated Statements of Income. The components of stock-based compensation expense for the years ended December 31, 2017, 2016 and 2015 are presented below:

For the Year Ended December 31,

(in millions)	2017	2016	2015
Total stock-based compensation expense	$36	$45	$44
Income tax benefit recognized in the income statement[1]	(9)	(16)	(15)
Stock-based compensation expense, net of tax	$27	$29	$29

(1) The year ended December 31, 2017 income tax benefit recognized related to stock-based compensation expense was impacted by the TCJA.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

DESCRIPTION OF STOCK-BASED COMPENSATION PLAN

Omnibus Stock Incentive Plan of 2009

During 2009, the Company adopted the Omnibus Stock Incentive Plan of 2009 (the "DPS Stock Plan") under which employees, consultants and non-employee directors may be granted stock options, stock appreciation rights, stock awards, RSUs or PSUs. This plan provides for the issuance of up to 20 million shares of the Company's common stock. Subsequent to adoption, the Company's Compensation Committee granted RSUs, PSUs and options with the following vesting schedule detailed below:

Stock Award Type	Vesting Schedule	
RSUs	Grants in 2015	Vest after three years
	Grants in 2016 and 2017	Executive officers: vest after three years All others: vest ratably on each anniversary date over three years
PSUs		Vest after three years
Stock options		Vest ratably on each anniversary date over three years

Each RSU is to be settled for one share of the Company's common stock on the respective vesting date of the RSU. Each PSU is to be settled for one share of the Company's common stock on the respective vesting date of the PSU, adjusted for internal return measurement results and relative stock price performance. No other types of stock-based awards have been granted under the DPS Stock Plan. Approximately 9 million shares of the Company's common stock were available for future grant as of December 31, 2017. The stock options issued under the DPS Stock Plan have a maximum option term of 10 years.

STOCK OPTIONS

The tables below summarize information about the Company's stock options granted during the years ended December 31, 2017, 2016 and 2015.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The risk-free interest rate used in the option valuation model is based on zero-coupon yields implied by U.S. Treasury issues with remaining terms similar to the expected term on the options. The expected term of the option represents the period of time that options granted are expected to be outstanding and is derived by analyzing historic exercise behavior. Expected volatility is based on implied volatilities from traded options on the Company's stock, historical volatility of the Company's stock and other factors. The Company's expected dividend yield is based on historical dividends declared.

The weighted average assumptions used to value grant options are detailed below:

	For the Year Ended December 31,		
	2017	2016	2015
Fair value of options at grant date	$9.95	$9.92	$9.22
Risk free interest rate	1.62 %	0.99 %	1.28 %
Expected term of options (in years)	3.6	3.6	3.9
Dividend yield	2.55 %	2.30 %	2.55 %
Expected volatility	17.19 %	18.22 %	18.98 %

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The table below summarizes stock option activity for the year ended December 31, 2017:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2017	1,342,921	$ 70.83	7.93	$ 27
Granted	423,745	94.62		
Exercised	(379,633)	53.28		16
Forfeited or expired	(14,427)	90.18		
Outstanding as of December 31, 2017	1,372,606	82.83	7.86	20
Exercisable as of December 31, 2017	556,704	70.53	6.90	15

As of December 31, 2017, there were 1,367,069 stock options vested or expected to vest. The weighted average exercise price of stock options granted for the years ended December 31, 2016 and 2015 was $91.98 and $79.20, respectively. The aggregate intrinsic value of the stock options exercised for the years ended December 31, 2016 and 2015 was $12 million and $27 million, respectively. As of December 31, 2017, there was $5 million of unrecognized compensation cost related to unvested stock options granted under the DPS Stock Plan that is expected to be recognized over a weighted average period of 0.83 years.

RESTRICTED STOCK UNITS

The table below summarizes RSU activity for the year ended December 31, 2017. The fair value of RSUs is determined based on the number of units granted and the grant date price of common stock.

	RSUs	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2017	1,218,244	$ 71.08	0.80	$ 110
Granted	412,059	94.41		
Vested and released	(626,453)	58.43		59
Forfeited	(61,726)	90.29		
Outstanding as of December 31, 2017	942,124	88.44	0.82	91

The total fair value of RSUs vested for the years ended December 31, 2017, 2016 and 2015 was $37 million, $27 million, and $29 million, respectively. The aggregate intrinsic value of the RSUs vested and released for the years ended December 31, 2016 and 2015 was $55 million and $60 million, respectively. As of December 31, 2017, there was $39 million of unrecognized compensation cost related to unvested RSUs granted under the DPS Stock Plan that is expected to be recognized over a weighted average period of 0.80 years.

During the year ended December 31, 2017, 626,453 units subject to previously granted RSUs vested. A majority of these vested stock awards were net share settled. The Company withheld issuance of 196,972 shares based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. Subsequently, the Company remitted the required funds to the appropriate taxing authorities.

PERFORMANCE SHARE UNITS

In 2011, the Compensation Committee of the Board approved a PSU plan. Each PSU is equivalent in value to one share of the Company's common stock. PSUs granted prior to January 1, 2015, will vest three years from the beginning date of a pre-determined performance period to the extent the Company has met two performance criteria

during the performance period: (i) the percentage growth of net income and (ii) the percentage yield from operating free cash flow. PSUs granted after January 1, 2015, are subject to an additional market condition, which compares the Company's relative total shareholder return performance against the total shareholder return of a specified list of peer companies over the term of the award. The maximum payout percentage for all PSUs granted by the Company is 200%.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The PSUs that are subject to the market condition are valued using a Monte Carlo simulation model, which requires certain assumptions, including the risk-free interest rate, expected volatility, and the expected term of the award. The risk-free interest rate used in the Monte Carlo simulation model is based on zero-coupon yields implied by U.S. Treasury issues with remaining terms similar to the performance period on the PSUs. The performance period of the PSUs represents the period of time between the PSU grant date and the end of the performance period. Expected volatility is based on historical data of the Company and peer companies over the most recent time period equal to the performance period.

For PSU grants during the years ended December 31, 2017, 2016, and 2015 the assumptions used in the Monte Carlo simulation are as follows:

	For the Year Ended December 31,		
	2017	2016	2015
Risk-free interest rate	1.56 %	0.98 %	1.00 %
Expected volatility	17.26%	17.29%	16.29%
Performance period (years)	2.8	2.8	2.8

The table below summarizes PSU activity for the year ended December 31, 2017:

	PSUs	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2017	374,618	$ 64.86	0.89	$ 34
Granted	120,373	84.98		
Performance adjustment[1]	146,313	51.68		
Vested and released	(296,821)	51.78		28
Forfeited	(14,993)	80.93		
Outstanding as of December 31, 2017	329,490	51.69	0.98	32

(1) For PSUs which vested during the year ended December 31, 2017, the Company awarded additional PSUs, as actual results measured at the end of the performance period exceeded target performance levels.

As of December 31, 2017, there was $6 million of unrecognized compensation cost related to unvested PSUs granted under the DPS Stock Plan that is expected to be recognized over a weighted average period of 1.50 years.

During the year ended December 31, 2017, 296,821 units subject to previously granted PSUs vested. A majority of these vested PSUs were net share settled. The Company withheld issuance of 101,988 shares based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. Subsequently, the Company remitted the required funds to the appropriate taxing authorities.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities. The following table presents the basic and diluted EPS and the Company's basic and diluted shares outstanding for the years ended December 31, 2017, 2016 and 2015:

	For the Year Ended December 31,		
(in millions, except per share data)	2017	2016	2015
Basic EPS:			
Net income	$1,076	$847	$764
Weighted average common shares outstanding	182.0	185.4	190.9
Earnings per common share — basic	$5.91	$4.57	$4.00
Diluted EPS:			
Net income	$1,076	$847	$764
Weighted average common shares outstanding	182.0	185.4	190.9
Effect of dilutive securities:			
Stock options	0.2	0.2	0.3
RSUs	0.5	0.7	0.9
PSUs	0.1	0.3	0.3
Weighted average common shares outstanding and common stock equivalents (1)	182.8	186.6	192.4
Earnings per common share — diluted	$5.89	$4.54	$3.97

(1) For the years ended December 31, 2017, 2016 and 2015, stock options, RSUs, PSUs and associated DEUs totaling 1.0 million, 0.5 million and 0.3 million shares, respectively, were excluded from the diluted weighted average shares outstanding as they were not dilutive.

Under the terms of our RSU and PSU agreements, unvested RSU and PSU awards contain forfeitable rights to dividends and DEUs. Because the DEUs are forfeitable, they are defined as non-participating securities. As of December 31, 2017, there were 53,689 DEUs, which will vest at the time that the underlying RSU and PSU vests.

As of December 31, 2017, the Company's Board authorized a total aggregate share repurchase plan of $5 billion. The following table shows the shares repurchased and retired during the years ended December 31, 2017, 2016 and 2015:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Shares repurchased and retired	4.4	5.7	6.5
Dollar value of shares repurchased and retired	$399	$519	$521

As of December 31, 2017, $733 million remains available for share repurchases under the Board's authorization.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

11. Property, Plant and Equipment

Net property, plant and equipment consisted of the following as of December 31, 2017 and 2016:

(in millions)	December 31, 2017	December 31, 2016
Land	$ 81	$ 73
Buildings and improvements	576	533
Machinery and equipment	1,664	1,569
Cold drink equipment	273	268
Software	261	253
Construction in progress	48	26
Gross property, plant and equipment	2,903	2,722
Less: accumulated depreciation and amortization	(1,705)	(1,584)
Net property, plant and equipment	$ 1,198	$ 1,138

Net property, plant and equipment in the above table includes the following assets under capital lease as of December 31, 2017 and 2016:

(in millions)	December 31, 2017	December 31, 2016
Buildings and improvements	$ 53	$ 49
Machinery and equipment	153	116
Gross property, plant and equipment under capital lease	206	165
Less: accumulated depreciation and amortization	(39)	(26)
Net property, plant and equipment under capital lease	$ 167	$ 139

The following table summarizes the location of depreciation expense within the Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015:

(in millions)	For the Year Ended December 31, 2017	2016	2015
Cost of sales	$103	$95	$93
Depreciation and amortization	95	96	99
	$198	$191	$192

The depreciation expense above also includes the charge to income resulting from amortization of assets recorded under capital leases.

12. Leases

The Company has leases for certain facilities, fleet and equipment which expire at various dates through 2044. Some lease agreements contain standard renewal provisions that allow us to renew the lease at rates equivalent to fair market value at the end of the lease term. Under lease agreements that contain escalating rent provisions, operating lease expense is recorded on a straight-line basis over the lease term. Under lease agreements that contain rent holidays, rent expense is recorded on a straight-line basis over the entire lease term, including the period covered by the rent holiday. Operating lease expense was $58 million, $55 million and $60 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Future minimum lease payments under operating leases with initial or remaining noncancellable lease terms in excess of one year and capital leases as of December 31, 2017 are as follows:

(in millions)	Operating Leases	Capital Leases
2018	$ 39	$ 24
2019	35	24
2020	31	23
2021	28	23
2022	23	23
Thereafter	104	201
Total minimum lease payments	$ 260	$ 318
Less imputed interest		(135)
Present value of minimum lease payments		$ 183

13. Inventories

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

(in millions)	December 31, 2017	December 31, 2016
Raw materials	$ 81	$ 77
Spare parts	24	22
Work in process	7	5
Finished goods	149	130
Inventories at FIFO cost	261	234
Reduction to LIFO cost	(32)	(32)
Inventories	$ 229	$ 202

Approximately $177 million and $158 million of the Company's inventory was accounted for under the LIFO method of accounting as of December 31, 2017 and 2016, respectively. The reduction to LIFO cost reflects the excess of the current cost of LIFO inventories as of December 31, 2017 and 2016 over the amount at which these inventories were valued on the Consolidated Balance Sheets. For the years ended December 31, 2017 and 2015, there was no LIFO inventory liquidation. For the year ended December 31, 2016, LIFO inventory liquidation increased the Company's earnings by $5 million.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

14. Other Assets and Liabilities
The table below details the components of other current and non-current assets and liabilities as of December 31, 2017 and 2016:

(in millions)	December 31, 2017	December 31, 2016
Prepaid expenses and other current assets:		
Customer incentive programs	$ 16	$ 24
Derivative instruments	32	19
Prepaid income taxes	7	18
Current assets held for sale	—	1
Other	44	39
Total prepaid expenses and other current assets	$ 99	$ 101
Other non-current assets:		
Customer incentive programs	$ 76	$ 57
Marketable securities - trading	48	35
Derivative instruments	33	41
Cost method investments[1]	1	16
Non-current restricted cash and restricted cash equivalents[2]	79	—
Other	42	34
Total other non-current assets	$ 279	$ 183
Other current liabilities:		
Customer rebates and incentives	$ 299	$ 280
Accrued compensation	130	134
Insurance liability	34	36
Interest accrual	20	24
Dividends payable	103	97
Derivative instruments	3	2
Holdback liability to former Bai Brands shareholders[2]	7	—
Acquired contingent liabilities[2]	14	—
Other	109	97
Total other current liabilities	$ 719	$ 670
Other non-current liabilities:		
Long-term payables due to Mondelēz International, Inc.	$ 16	$ 21
Long-term pension and PRMB liability	19	41
Insurance liability	60	67
Derivative instruments	8	7
Deferred compensation liability	48	35
Holdback liability to former Bai Brands shareholders[2]	79	—
Acquired contingent liabilities[2]	5	—
Other	29	38
Total other non-current liabilities	$ 264	$ 209

(1) The decrease in cost method investments resulted from our consummation of the Bai Brands Merger, as we had a cost method investment in Bai Brands as of December 31, 2016. Refer to Note 3 for additional information

regarding the Bai Brands Merger and treatment of our previously held interest in Bai Brands.

(2) Refer to Note 3 for additional information on non-current restricted cash and restricted cash equivalents, the corresponding holdback liability to former Bai Brands shareholders, and the acquired contingent liabilities, as of December 31, 2017.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

15. Commitments and Contingencies

LEGAL MATTERS

The Company is occasionally subject to litigation or other legal proceedings. The Company does not believe that the outcome of these, or any other, pending legal matters, individually or collectively, will have a material adverse effect on the results of operations, financial condition or liquidity of the Company.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

The Company operates many manufacturing, bottling and distribution facilities. In these and other aspects of the Company's business, it is subject to a variety of federal, state and local environmental, health and safety laws and regulations. The Company maintains environmental, health and safety policies and a quality, environmental, health and safety program designed to ensure compliance with applicable laws and regulations. However, the nature of the Company's business exposes it to the risk of claims with respect to environmental, health and safety matters, and there can be no assurance that material costs or liabilities will not be incurred in connection with such claims.

The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, also known as the Superfund law, as well as similar state laws, generally impose joint and several liability for cleanup and enforcement costs on current and former owners and operators of a site without regard to fault or the legality of the original conduct. In October 2008, DPS was notified by the Environmental Protection Agency that it is a potentially responsible party for study and cleanup costs at a Superfund site in New Jersey. Investigation and remediation costs are yet to be determined, therefore no reasonable estimate exists on which to base a loss accrual. Through December 31, 2017, the Company has paid approximately $1 million since the notification for DPS' allocation of costs related to the study for this site.

16. Accumulated Other Comprehensive Loss

The following table provides a summary of changes in the balances of each component of AOCL, net of taxes, for the years ended December 31, 2017, 2016 and 2015:

(in millions)	Foreign Currency Translation Adjustments	Net Change in Pension and PRMB Liability	Net Change in Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as of January 1, 2015	$ (61)	$ (40)	$ (36)	$ (137)
OCI before reclassifications	(64)	—	(2)	(66)
Amounts reclassified from AOCL	—	4	4	8
Net current year OCI	(64)	4	2	(58)
Balance as of December 31, 2015	(125)	(36)	(34)	(195)
OCI before reclassifications	(39)	(5)	—	(44)
Amounts reclassified from AOCL	—	4	6	10
Net current year OCI	(39)	(1)	6	(34)
Balance as of December 31, 2016	(164)	(37)	(28)	(229)
OCI before reclassifications	16	1	(7)	10
Amounts reclassified from AOCL	—	4	13	17
Net current year OCI	16	5	6	27
Balance as of December 31, 2017	$ (148)	$ (32)	$ (22)	$ (202)

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following table presents the amount of loss reclassified from AOCL into the Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015:

(in millions)	Location of (Loss) Gain Reclassified from AOCL into Net Income	For the Year Ended December 31, 2017	2016	2015
(Loss) Gain on cash flow hedges:				
Interest rate contracts	Interest expense	$(9)	$(8)	$(8)
Foreign exchange forward contracts	Cost of sales	(9)	(1)	2
Total		(18)	(9)	(6)
Income tax expense		(5)	(3)	(2)
Total		$(13)	$(6)	$(4)
Defined benefit pension and PRMB plan items:				
Amortization of actuarial losses, net	SG&A expenses	$(4)	$(4)	$(4)
Settlement loss	SG&A expenses	(1)	(2)	(3)
Total		(5)	(6)	(7)
Income tax expense		(1)	(2)	(3)
Total		$(4)	$(4)	$(4)
Total reclassifications		$(17)	$(10)	$(8)

17. Supplemental Cash Flow Information

Cash equivalents are composed of certificates of deposit, time deposits and other interest-bearing investments with original maturity dates of three months or less. Cash equivalents are recorded at cost, which approximates fair value. The Company's cash and cash equivalents are not required to be measured at fair value in the Consolidated Balance Sheets. The following table provides a reconciliation of the carrying value and estimated fair value of the Company's cash, cash equivalents, restricted cash and restricted cash equivalents reported with the Consolidated Balance Sheets to the total of the same amounts shown in the Consolidated Statements of Cash Flows:

(in millions)	Fair Value Hierarchy	December 31, 2017 Carrying Amount	December 31, 2017 Fair Value	December 31, 2016 Carrying Amount	December 31, 2016 Fair Value
Cash and cash equivalents	Level 1	$ 61	$ 61	$1,787	$1,787
Restricted cash and restricted cash equivalents[1]	Level 1	18	18	—	—
Non-current restricted cash and restricted cash equivalents included in Other non-current assets[1]	Level 1	79	79	—	—
Total cash, cash equivalents, restricted cash and restricted cash equivalents shown in the Consolidated Statement of Cash Flows		$ 158	$ 158	$1,787	$1,787

(1) Amounts included in restricted cash and restricted cash equivalents represent the holdback held in escrow in connection with the Bai Brands Merger. Refer to Note 3 for additional information on the Bai Brands Merger.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following table details supplemental cash flow disclosures of non-cash investing and financing activities for the years ended December 31, 2017, 2016 and 2015:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Supplemental cash flow disclosures of non-cash investing and financing activities:			
Dividends declared but not yet paid	$ 103	$ 97	$ 90
Capital expenditures included in accounts payable and other current liabilities	18	11	14
Holdback liability for acquisition of business	86	—	—
Capital lease additions	42	26	55
Supplemental cash flow disclosures:			
Interest paid	$ 143	$ 117	$ 94
Income taxes paid	291	431	346

18. Segments

As of December 31, 2017 and for the year ended December 31, 2017, the Company's operating structure consisted of the following four operating segments:

- The Beverage Concentrates segment reflects sales of the Company's branded concentrates and syrup to third party bottlers primarily in the U.S. and Canada. Most of the brands in this segment are carbonated soft drink brands.
- The Packaged Beverages Excluding Bai segment reflects sales in the U.S. and Canada from the manufacture and distribution of finished beverages and other products, including sales of the Company's own brands and third party brands, through both DSD and WD.
- The Bai segment reflects sales of Bai Brands finished goods to third party distributors, primarily in the U.S., as net sales to the Packaged Beverages Excluding Bai segment are eliminated in consolidation. Refer to Note 3 for additional information regarding the impact of Bai Brands on the Company's net sales presented in the Consolidated Statements of Income.
- The Latin America Beverages segment reflects sales in the Mexico, Caribbean, and other international markets from the manufacture and distribution of concentrates, syrup and finished beverages.

The Company has determined that Packaged Beverages Excluding Bai and Bai, which have been identified as operating segments, meet the aggregation criteria under U.S. GAAP. As such, these segments have been aggregated into one reportable segment, Packaged Beverages, based on similarities among the operating units including economic characteristics, the nature of the products and services, the nature of the production processes, the types or class of customer for their products and services, the methods used to distribute their products and services and the nature of the regulatory environment.

As of December 31, 2016 and for the years ended December 31, 2016 and 2015, the Company's operating structure consisted of the three operating segments identified prior to the Bai Brands Merger.

Segment results are based on management reports. Net sales and SOP are the significant financial measures used to assess the operating performance of the Company's operating segments. Intersegment sales are recorded at cost and are eliminated in the Consolidated Statements of Operations. “Unallocated corporate costs” are excluded from the Company's measurement of segment performance and include stock-based compensation expense, unrealized commodity derivative gains and losses, and certain general corporate expenses.

Information about the Company's operations by operating segment as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 is as follows:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Segment Results – Net sales			
Beverage Concentrates	$1,332	$1,284	$1,241
Packaged Beverages	4,871	4,696	4,544
Latin America Beverages	487	460	497
Net sales	$6,690	$6,440	$6,282

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Segment Results – SOP			
Beverage Concentrates	$865	$834	$807
Packaged Beverages	691	771	709
Latin America Beverages	62	78	88
Total SOP	1,618	1,683	1,604
Unallocated corporate costs	281	253	299
Other operating income, net	(51)	(3)	7
Income from operations	1,388	1,433	1,298
Interest expense, net	161	144	115
Loss on early extinguishment of debt	62	31	—
Other income, net	(8)	(25)	(1)
Income before provision for income taxes and equity in loss of unconsolidated subsidiaries	$1,173	$1,283	$1,184

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Amortization expense			
Beverage Concentrates	$12	$13	$12
Packaged Beverages	8	4	7
Latin America Beverages	—	—	—
Segment total	20	17	19
Corporate and other	11	16	16
Total amortization expense	$31	$33	$35

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Depreciation expense			
Beverage Concentrates	$8	$8	$7
Packaged Beverages	160	158	161
Latin America Beverages	19	14	14
Segment total	187	180	182
Corporate and other	11	11	10

Total depreciation expense	$198	$191	$192

103

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	As of December 31,	
(in millions)	2017	2016
Identifiable operating assets		
Beverage Concentrates	$4,152	$4,108
Packaged Beverages[1]	5,295	3,474
Latin America Beverages	339	312
Segment total	9,786	7,894
Corporate and other[1]	212	1,874
Total identifiable operating assets	9,998	9,768
Investments in unconsolidated subsidiaries	24	23
Total assets	$10,022	$9,791

(1) The increase in Package Beverages segment primarily resulted from the inclusion of operating assets recognized from the Bai acquisition, and the decrease in Corporate and other segment was primarily a result of the cash paid in respect to the Bai acquisition. Refer to Note 3 for additional information regarding the Bai Brands Merger.

GEOGRAPHIC DATA

The Company utilizes separate legal entities for transactions with customers outside of the United States. Information about the Company's operations by geographic region as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 is below:

	For the Year Ended December 31,		
(in millions)	2017	2016	2015
Net sales			
U.S.	$5,978	$5,768	$5,575
International	712	672	707
Total net sales	$6,690	$6,440	$6,282

	As of December 31,	
(in millions)	2017	2016
Property, plant and equipment, net		
U.S.	$1,062	$1,007
International	136	131
Total property, plant and equipment, net	$1,198	$1,138

MAJOR CUSTOMER

Walmart represents one of the Company's major customers and accounted for more than 10% of total net sales for the years ended December 31, 2017, 2016 and 2015. For the years ended December 31, 2017, 2016 and 2015, DPS recorded net sales for direct shipments to Walmart of $838 million, $779 million and $779 million, respectively. Additionally, customers in the Company's Beverage Concentrates segment buy concentrate from DPS which is used in finished goods sold by the Company's third party bottlers to Walmart. These indirect sales further increase the concentration of risk associated with DPS' consolidated net sales as it relates to Walmart.

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

19. Guarantor and Non-Guarantor Financial Information
The Company's Notes are fully and unconditionally guaranteed by substantially all of the Company's existing and future direct and indirect domestic subsidiaries (except one immaterial subsidiary associated with charitable purposes) (the "Guarantors"), as defined in the indentures governing the Notes. The Guarantors are 100% owned either directly or indirectly by the Company and jointly and severally guarantee, subject to the release provisions described below, the Company's obligations under the Notes. None of the Company's subsidiaries organized outside of the U.S. or immaterial subsidiaries used for charitable purposes (collectively, the "Non-Guarantors") guarantee the Notes. The subsidiary guarantees with respect to the Notes are subject to release upon the occurrence of certain events, including the sale of all or substantially all of a subsidiary's assets, the release of the subsidiary's guarantee of other indebtedness of the Company, the Company's exercise of its legal defeasance option with respect to the Notes and the discharge of the Company's obligations under the applicable indenture.
The following schedules present the financial information for Dr Pepper Snapple Group, Inc. (the "Parent"), Guarantors and Non-Guarantors. The consolidating schedules are provided in accordance with the reporting requirements for guarantor subsidiaries.

	Condensed Consolidating Statements of Income For the Year Ended December 31, 2017				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	$—	$ 6,156	$ 680	$ (146)	$ 6,690
Cost of sales	—	2,466	375	(146)	2,695
Gross profit	—	3,690	305	—	3,995
Selling, general and administrative expenses	7	2,342	207	—	2,556
Depreciation and amortization	—	94	8	—	102
Other operating (income) expense, net	—	(52)	1	—	(51)
Income from operations	(7)	1,306	89	—	1,388
Interest expense	279	84	—	(199)	164
Interest income	(73)	(128)	(1)	199	(3)
Loss on early extinguishment of debt	62	—	—	—	62
Other income, net	(9)	(2)	3	—	(8)
Income before provision for income taxes and equity in loss of unconsolidated subsidiaries	(266)	1,352	87	—	1,173
Provision for income taxes	(94)	169	20	—	95
Income before equity in loss of unconsolidated subsidiaries	(172)	1,183	67	—	1,078
Equity in earnings of consolidated subsidiaries	1,248	67	—	(1,315)	—
Equity in loss of unconsolidated subsidiaries, net of tax	—	(2)	—	—	(2)
Net income	$ 1,076	$ 1,248	$ 67	$ (1,315)	$ 1,076

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Condensed Consolidating Statements of Income For the Year Ended December 31, 2016				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	$—	$ 5,936	$ 633	$ (129)	$6,440
Cost of sales	—	2,392	319	(129)	2,582
Gross profit	—	3,544	314	—	3,858
Selling, general and administrative expenses	3	2,127	199	—	2,329
Depreciation and amortization	—	92	7	—	99
Other operating (income) expense, net	—	2	(5)	—	(3)
Income from operations	(3)	1,323	113	—	1,433
Interest expense	242	69	—	(164)	147
Interest income	(55)	(105)	(7)	164	(3)
Loss on early extinguishment of debt	31	—	—	—	31
Other income, net	(5)	(27)	7	—	(25)
Income before provision for income taxes and equity in loss of unconsolidated subsidiaries	(216)	1,386	113	—	1,283
Provision for income taxes	(69)	470	33	—	434
Income before equity in loss of unconsolidated subsidiaries	(147)	916	80	—	849
Equity in earnings of consolidated subsidiaries	994	81	—	(1,075)	—
Equity in loss of unconsolidated subsidiaries, net of tax	—	(3)	1	—	(2)
Net income	$847	$ 994	$ 81	$ (1,075)	$847

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Condensed Consolidating Statements of Income For the Year Ended December 31, 2015				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	$—	$ 5,668	$ 633	$ (19)	$6,282
Cost of sales	—	2,280	298	(19)	2,559
Gross profit	—	3,388	335	—	3,723
Selling, general and administrative expenses	—	2,105	208	—	2,313
Depreciation and amortization	—	99	6	—	105
Other operating (income) expense, net	—	(1)	8	—	7
Income from operations	—	1,185	113	—	1,298
Interest expense	228	56	—	(167)	117
Interest income	(42)	(120)	(7)	167	(2)
Other income, net	(1)	(6)	6	—	(1)
Income before provision for income taxes and equity in loss of unconsolidated subsidiaries	(185)	1,255	114	—	1,184
Provision for income taxes	(85)	472	33	—	420
Income before equity in loss of unconsolidated subsidiaries	(100)	783	81	—	764
Equity in earnings of consolidated subsidiaries	864	81	—	(945)	—
Equity in loss of unconsolidated subsidiaries, net of tax	—	—	—	—	—
Net income	$764	$ 864	$ 81	$ (945)	$764

Table of Contents

DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Condensed Consolidating Statements of Comprehensive Income For the Year Ended December 31, 2017				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net income	$1,076	$ 1,248	$ 67	$ (1,315)	$1,076
Other comprehensive (loss) income, net of tax:					
Other comprehensive income impact from consolidated subsidiaries	22	17	—	(39)	—
Foreign currency translation adjustments	—	—	16	—	16
Net change in pension liability, net of tax	—	5	—	—	5
Net change in cash flow hedges, net of tax	5	—	1	—	6
Total other comprehensive (loss) income, net of tax	27	22	17	(39)	27
Comprehensive income (loss)	$1,103	$ 1,270	$ 84	$ (1,354)	$1,103

	Condensed Consolidating Statements of Comprehensive Income For the Year Ended December 31, 2016				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net income	$847	$ 994	$ 81	$ (1,075)	$847
Other comprehensive (loss) income, net of tax:					
Other comprehensive income impact from consolidated subsidiaries	(40)	(29)	—	69	—
Foreign currency translation adjustments	(1)	(11)	(27)	—	(39)
Net change in pension liability, net of tax	—	—	(1)	—	(1)
Net change in cash flow hedges, net of tax	7	—	(1)	—	6
Total other comprehensive (loss) income, net of tax	(34)	(40)	(29)	69	(34)
Comprehensive income (loss)	$813	$ 954	$ 52	$ (1,006)	$813

	Condensed Consolidating Statements of Comprehensive Income For the Year Ended December 31, 2015				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net income	$764	$ 864	$ 81	$ (945)	$764
Other comprehensive (loss) income, net of tax:					
Other comprehensive income impact from consolidated subsidiaries	(67)	(100)	—	167	—
Foreign currency translation adjustments	7	31	(102)	—	(64)
Net change in pension liability, net of tax	—	2	2	—	4
Net change in cash flow hedges, net of tax	2	—	—	—	2
Total other comprehensive (loss) income, net of tax	(58)	(67)	(100)	167	(58)
Comprehensive income (loss)	$706	$ 797	$ (19)	$ (778)	$706

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Condensed Consolidating Balance Sheets As of December 31, 2017				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Current assets:					
Cash and cash equivalents	$—	$ 15	$ 46	$ —	$ 61
Restricted cash and cash equivalents	—	18	—	—	18
Accounts receivable:					
Trade, net	—	595	73	—	668
Other	1	35	6	—	42
Related party receivable	20	42	—	(62)	—
Inventories	—	199	30	—	229
Prepaid expenses and other current assets	473	83	18	(475)	99
Total current assets	494	987	173	(537)	1,117
Property, plant and equipment, net	—	1,062	136	—	1,198
Investments in consolidated subsidiaries	9,373	332	—	(9,705)	—
Investments in unconsolidated subsidiaries	—	24	—	—	24
Goodwill	—	3,539	22	—	3,561
Other intangible assets, net	—	3,733	48	—	3,781
Long-term receivable, related parties	3,278	6,233	—	(9,511)	—
Other non-current assets	65	195	22	(3)	279
Non-current deferred tax assets	11	—	62	(11)	62
Total assets	$13,221	$ 16,105	$ 463	$ (19,767)	$ 10,022
Current liabilities:					
Accounts payable	$—	$ 333	$ 32	$ —	$ 365
Related party payable	37	20	5	(62)	—
Deferred revenue	—	68	2	(6)	64
Short-term borrowings and current portion of long-term obligations	66	13	—	—	79
Income taxes payable	—	479	1	(469)	11
Other current liabilities	133	532	54	—	719
Total current liabilities	236	1,445	94	(537)	1,238
Long-term obligations to third parties	4,230	170	—	—	4,400
Long-term obligations to related parties	6,233	3,278	—	(9,511)	—
Non-current deferred tax liabilities	—	625	—	(11)	614
Non-current deferred revenue	—	1,032	26	(3)	1,055
Other non-current liabilities	71	182	11	—	264
Total liabilities	10,770	6,732	131	(10,062)	7,571
Total stockholders' equity	2,451	9,373	332	(9,705)	2,451
Total liabilities and stockholders' equity	$13,221	$ 16,105	$ 463	$ (19,767)	$ 10,022

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Condensed Consolidating Balance Sheets As of December 31, 2016				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Current assets:					
Cash and cash equivalents	$—	$ 1,736	$ 51	$ —	$ 1,787
Restricted cash and cash equivalents	—	—	—	—	—
Accounts receivable:					
Trade, net	—	540	55	—	595
Other	3	39	9	—	51
Related party receivable	15	37	—	(52)	—
Inventories	—	178	24	—	202
Prepaid and other current assets	379	84	7	(369)	101
Total current assets	397	2,614	146	(421)	2,736
Property, plant and equipment, net	—	1,007	131	—	1,138
Investments in consolidated subsidiaries	8,067	302	—	(8,369)	—
Investments in unconsolidated subsidiaries	—	23	—	—	23
Goodwill	—	2,972	21	—	2,993
Other intangible assets, net	—	2,609	47	—	2,656
Long-term receivable, related parties	3,209	5,077	—	(8,286)	—
Other non-current assets	64	107	12	—	183
Non-current deferred tax assets	20	—	62	(20)	62
Total assets	$ 11,757	$ 14,711	$ 419	$ (17,096)	$ 9,791
Current liabilities:					
Accounts payable	$—	$ 276	$ 27	$ —	$ 303
Related party payable	31	14	7	(52)	—
Deferred revenue	—	63	1	—	64
Short-term borrowings and current portion of long-term obligations	—	10	—	—	10
Income taxes payable	—	372	1	(369)	4
Other current liabilities	128	502	40	—	670
Total current liabilities	159	1,237	76	(421)	1,051
Long-term obligations to third parties	4,325	143	—	—	4,468
Long-term obligations to related parties	5,077	3,209	—	(8,286)	—
Non-current deferred tax liabilities	(1)	833	—	(20)	812
Non-current deferred revenue	—	1,091	26	—	1,117
Other non-current liabilities	63	131	15	—	209
Total liabilities	9,623	6,644	117	(8,727)	7,657
Total stockholders' equity	2,134	8,067	302	(8,369)	2,134
Total liabilities and stockholders' equity	$ 11,757	$ 14,711	$ 419	$ (17,096)	$ 9,791

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Condensed Consolidating Statements of Cash Flows For the Year Ended December 31, 2017				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Operating activities:					
Net cash (used in) provided by operating activities	$(255)	$ 1,281	$ 68	$ (56)	$1,038
Investing activities:					
Acquisition of business	—	(1,556)	—	—	(1,556)
Cash acquired in step acquisition of unconsolidated subsidiaries	—	4	—	—	4
Purchase of property, plant and equipment	—	(182)	(20)	—	(202)
Purchase of intangible assets	—	(6)	—	—	(6)
Investment in unconsolidated subsidiaries	—	(3)	—	—	(3)
Proceeds from disposals of property, plant and equipment	—	3	—	—	3
Issuance of related party notes receivable	—	(1,156)	—	1,156	—
Other, net	(6)	3	—	—	(3)
Net cash (used in) provided by investing activities	(6)	(2,893)	(20)	1,156	(1,763)
Financing activities:					
Proceeds from issuance of related party debt	1,156	—	—	(1,156)	—
Proceeds from issuance of senior unsecured notes	400	—	—	—	400
Repayment of senior unsecured notes	(562)	—	—	—	(562)
Net issuance of commercial paper	66	—	—	—	66
Repurchase of shares of common stock	(399)	—	—	—	(399)
Dividends paid	(414)	—	(56)	56	(414)
Tax withholdings related to net share settlements of certain stock awards	(30)	—	—	—	(30)
Proceeds from stock options exercised	20	—	—	—	20
Premium (discount) on issuance of senior unsecured notes	16	—	—	—	16
Proceeds from termination of interest rate swap	13	—	—	—	13
Deferred financing charges	(5)	—	—	—	(5)
Capital lease payments	—	(12)	—	—	(12)
Net cash (used in) provided by financing activities	261	(12)	(56)	(1,100)	(907)
Cash, cash equivalents, restricted cash and restricted cash equivalents — net change from:					
Operating, investing and financing activities	—	(1,624)	(8)	—	(1,632)
Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	—	—	3	—	3
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of year	—	1,736	51	—	1,787
Cash, cash equivalents, restricted cash, and restricted cash equivalents at end of year	$—	$ 112	$ 46	$ —	$158

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Condensed Consolidating Statements of Cash Flows For the Year Ended December 31, 2016				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Operating activities:					
Net cash (used in) provided by operating activities	$(197)	$ 1,107	$ 74	$ (23)	$961
Investing activities:					
Acquisition of business	—	—	(15)	—	(15)
Cash acquired in step acquisition of unconsolidated subsidiaries	—	—	17	—	17
Purchase of property, plant and equipment	—	(131)	(49)	—	(180)
Purchase of intangible assets	—	(1)	(1)	—	(2)
Investments in unconsolidated subsidiaries	—	(6)	—	—	(6)
Purchase of cost method investments	—	(1)	—	—	(1)
Proceeds from disposals of property, plant and equipment	—	6	—	—	6
Issuance of related party notes receivable	—	(88)	—	88	—
Other, net	(8)	—	—	—	(8)
Net cash (used in) provided by investing activities	(8)	(221)	(48)	88	(189)
Financing activities:					
Proceeds from issuance of related party debt	88	—	—	(88)	—
Proceeds from issuance of senior unsecured notes	1,950	—	—	—	1,950
Repayment of senior unsecured notes	(891)	—	—	—	(891)
Repurchase of shares of common stock	(519)	—	—	—	(519)
Dividends paid	(386)	—	(23)	23	(386)
Tax withholdings related to net share settlements of certain stock awards	(31)	—	—	—	(31)
Proceeds from stock options exercised	14	—	—	—	14
Premium (discount) on issuance of senior unsecured notes	(1)	—	—	—	(1)
Deferred financing charges paid	(19)	—	—	—	(19)
Capital lease payments	—	(9)	—	—	(9)
Net cash (used in) provided by financing activities	205	(9)	(23)	(65)	108
Cash and cash equivalents — net change from:					
Operating, investing and financing activities	—	877	3	—	880
Effect of exchange rate changes on cash and cash equivalents	—	—	(4)	—	(4)
Cash and cash equivalents at beginning of period	—	859	52	—	911
Cash and cash equivalents at end of period	$—	$ 1,736	$ 51	$ —	$1,787

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Condensed Consolidating Statements of Cash Flows For the Year Ended December 31, 2015				
(in millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Operating activities:					
Net cash (used in) provided by operating activities	$(209)	$ 1,128	$ 95	$ —	$1,014
Investing activities:					
Purchase of property, plant and equipment	—	(133)	(46)	—	(179)
Purchase of intangible assets	—	(1)	—	—	(1)
Purchase of cost method investments	—	(15)	—	—	(15)
Investments in unconsolidated subsidiaries	—	(20)	—	—	(20)
Proceeds from disposals of property, plant and equipment	—	20	—	—	20
Issuance of related party notes receivable	—	(340)	(39)	379	—
Other, net	1	—	—	—	1
Net cash (used in) provided by investing activities	1	(489)	(85)	379	(194)
Financing activities:					
Proceeds from issuance of related party debt	340	39	—	(379)	—
Proceeds from issuance of senior unsecured notes	750	—	—	—	750
Repurchase of shares of common stock	(521)	—	—	—	(521)
Dividends paid	(355)	—	—	—	(355)
Tax withholdings related to net share settlements of certain stock awards	(27)	—	—	—	(27)
Proceeds from stock options exercised	30	—	—	—	30
Premium (discount) on issuance of senior unsecured notes	(4)	—	—	—	(4)
Deferred financing charges paid	(6)	—	—	—	(6)
Capital lease payments	—	(5)	—	—	(5)
Other, net	1	—	—	—	1
Net cash (used in) provided by financing activities	208	34	—	(379)	(137)
Cash and cash equivalents — net change from:					
Operating, investing and financing activities	—	673	10	—	683
Effect of exchange rate changes on cash and cash equivalents	—	—	(9)	—	(9)
Cash and cash equivalents at beginning of year	—	186	51	—	237
Cash and cash equivalents at end of year	$—	$ 859	$ 52	$ —	$911

Table of Contents
DR PEPPER SNAPPLE GROUP, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

20. Subsequent Events
ANNOUNCEMENT OF MERGER WITH KEURIG GREEN MOUNTAIN, INC.
On January 29, 2018, DPS entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among DPS, Maple Parent Holdings Corp. ("Maple Parent") and Salt Merger Sub, Inc. ("Merger Sub"), whereby Merger Sub will be merged with and into Maple Parent, with Maple Parent surviving the merger as a wholly-owned subsidiary of the Company (the "Transaction"). For financial reporting and accounting purposes, Maple Parent will be the acquirer of DPS upon completion of the Transaction.
Maple Parent owns Keurig Green Mountain, Inc. ("Keurig"), a leader in specialty coffee and innovative single serve brewing systems. The combined businesses will create Keurig Dr Pepper Inc., a new beverage company of scale with a portfolio of iconic consumer brands and expanded distribution capability to reach virtually every point-of-sale in North America.
In consideration for the Transaction, each share of common stock of Maple Parent issued and outstanding immediately prior to the closing of the Transaction (the "Effective Time") shall be converted into the right to receive a number of fully paid and nonassessable shares of common stock of DPS determined pursuant to an exchange ratio set forth in the Merger Agreement (the "Acquisition Shares").
The Merger Agreement provides that DPS will declare a special cash dividend equal to $103.75 per share, subject to any withholding of taxes required by law, payable to holders of its common stock as of the record date for the special dividend.
As a result of the Transaction, the stockholders of Maple Parent as of immediately prior to the Effective Time will own approximately 87% of DPS' common stock following the closing and the stockholders of DPS as of immediately prior to the Effective Time will own approximately 13% on a fully diluted basis.
The completion of the Transaction requires the approval of the holders of DPS' common stock of (i) an amendment to the DPS' certificate of incorporation to increase the number of authorized shares of common stock and to change DPS' name to "Keurig Dr Pepper Inc." and (ii) the issuance of the Acquisition Shares pursuant to the Merger Agreement (collectively, the "Stockholder Approvals").
In addition to the Stockholder Approvals, the completion of the Transaction will depend upon a number of conditions being satisfied or waived, including, among others, obtaining all required regulatory approvals, authorization of the listing on the New York Stock Exchange of the Acquisition Shares, the absence of any injunction prohibiting the consummation of the Transaction and absence of any legal requirements enacted by any court or other governmental entity since the date of the Merger Agreement that remain in effect prohibiting consummation of the Transaction. The obligation of each party to consummate the Transaction is also conditioned on the other party's representations and warranties being true and correct (subject to certain materiality exceptions) and the other party having performed in all material respects its obligations under the Merger Agreement.
The Merger Agreement may be terminated at any time prior to the Effective Time, whether before or after receipt of the Stockholder Approvals or the effectiveness of the Maple Parent stockholder consent or Merger Sub stockholder consent, by the mutual written consent of the parties, by either Maple Parent or DPS if the closing of the Transaction does not occur by October 29, 2018 or stockholder approvals are not obtained or a final and nonappealable government order prohibiting the closing of the Transaction is in place, or by Maple Parent or DPS in connection with certain breaches of the Merger Agreement by DPS or Maple Parent, respectively.
If the Merger Agreement is terminated by DPS pursuant to DPS accepting a superior proposal and entering into an alternative acquisition agreement, by Maple Parent if our Board changes its recommendation to stockholders to approve the Stockholder Approvals or fails to reaffirm such recommendation following receipt or public announcement of a competing acquisition proposal within five business days after Maple Parent's request to do so, or by either DPS or Maple Parent because the closing does not occur by October 29, 2018 and there is an acquisition proposal outstanding at the time of such termination and within twelve months of termination of the Merger Agreement DPS consummates or enters into an agreement with respect to an acquisition proposal, DPS shall pay to

Maple Parent a termination fee in the amount of $700 million. If the Merger Agreement is terminated by DPS because Maple Parent is unable to obtain required financing on the terms required by the Merger Agreement, Maple Parent shall pay to DPS a reverse termination fee in the amount of $700 million.

Upon completion of the Transaction:

- all unvested stock options, RSUs and PSUs will vest immediately as a result of the Change in Control (as defined in the terms of each individual award agreement); and
- the Revolver will be terminated as a result of the Change in Control (as defined in the Credit Agreement).

Table of Contents

We have an agreement with a financial advisor in relation to the pending Transaction with Maple Parent. We agreed to pay a fee of approximately $50 million, $5 million of which was for the delivery of the fairness opinion, and the remaining portion of which will be paid upon, and subject to, consummation of the Transaction.

CHANGE IN THE COMPANY'S OPERATING SEGMENTS AND REPORTING UNITS

As of January 1, 2018, due to changes to the information reviewed by the Chief Operating Decision Maker and limited availability of discrete financial information, the Company has determined that Bai no longer meets the criteria to be considered an operating segment. Therefore, as of January 1, 2018, the Company has three operating segments: Beverage Concentrates, Packaged Beverages, and Latin America Beverages. There is no change to the Company's reportable segments, as previously Bai and Packaged Beverages Excluding Bai were aggregated into the Packaged Beverages reportable segment.

The Company has additionally concluded that Bai meets the criteria to be considered a component of the Packaged Beverages segment. However, as the economic characteristics of Bai and WD are similar, the Company has aggregated Bai and WD into a single reporting unit as of January 1, 2018.

INVESTMENT IN CORE NUTRITION LLC

On January 5, 2018, the Company acquired a 5.1% equity interest in Core for $18 million.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Based on evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, as of December 31, 2017, our disclosure controls and procedures are effective to (i) provide reasonable assurance that information required to be disclosed in the Exchange Act filings is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and (ii) ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act are accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. In making its assessment of internal control over financial reporting, management used criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013). Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 31, 2017.

Under guidelines established by the SEC, companies are allowed to exclude an acquired business from management's report on internal control over financial reporting for the first year subsequent to the acquisition while integrating the acquired operations. Accordingly, management has excluded Bai Brands from its annual report on internal control over financial reporting as of December 31, 2017. Bai Brands represented 17% and 1% of the Company's consolidated total assets and consolidated net sales, respectively, as of and for the year ended December 31, 2017.

ATTESTATION REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by Deloitte & Touche LLP, our independent registered public accounting firm, as stated in their attestation report, which is included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As of December 31, 2017, management has concluded that there have been no changes in our internal controls over financial reporting that occurred during our fourth quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

Item 10. Directors. Executive Officers and Corporate Governance.

Information not disclosed below that is required with respect to directors, executive officers, filings under Section 16(a) of the Exchange Act and corporate governance is incorporated herein by reference, when filed, from our proxy statement (the "Proxy Statement") for the Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A under the Exchange Act or an amendment on Form 10-K/A.

Item 11. Executive Compensation.

Information required to be set forth hereunder has been omitted and will be incorporated by reference, when filed, from our Proxy Statement or an amendment on Form 10-K/A.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required to be set forth hereunder has been omitted and will be incorporated by reference, when filed, from our Proxy Statement or an amendment on Form 10-K/A.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required to be set forth hereunder has been omitted and will be incorporated by reference, when filed, from our Proxy Statement or an amendment on Form 10-K/A.

Item 14. Principal Accountant Fees and Services

Information required to be set forth hereunder has been omitted and will be incorporated by reference, when filed, from our Proxy Statement or an amendment on Form 10-K/A.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS

The following financial statements are included in Part II, Item 8, "Financial Statements and Supplementary Data," in this Annual Report on Form 10-K:

- Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015
- Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015
- Consolidated Balance Sheets as of December 31, 2017 and 2016
- Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015
- Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2017, 2016 and 2015
- Notes to Consolidated Financial Statements for the years ended December 31, 2017, 2016 and 2015

SCHEDULES

Schedules are omitted because they are not required or applicable, or the required information is included in the Consolidated Financial Statements or related notes.

EXHIBITS

See Index to Exhibits.

Table of Contents

EXHIBIT INDEX

2.1	Separation and Distribution Agreement between Cadbury Schweppes plc and Dr Pepper Snapple Group, Inc. and, solely for certain provisions set forth therein, Cadbury plc, dated as of May 1, 2008 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (filed on May 5, 2008) and incorporated herein by reference).
2.2	Agreement and Plan of Merger, dated as of November 21, 2016, by and among Bai Brands LLC, Dr Pepper Snapple Group, Inc., Superfruit Merger Sub, LLC and Fortis Advisors LLC, (filed as Exhibit 2.1 to the Company’s Current Report on Form 8-K (filed on November 23, 2016) and incorporated herein by reference).
2.3	Amendment No. 1, dated as of January 31, 2017, to the Agreement and Plan of Merger, dated as of November 21, 2016, by and among Bai Brands LLC, Dr Pepper Snapple Group, Inc., Superfruit Merger Sub, LLC and Fortis Advisors LLC, (filed as Exhibit 2.2 to the Company’s Current Report on Form 8-K (filed on January 31, 2017) and incorporated herein by reference).
3.1	Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of May 17, 2012 (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (filed July 26, 2012) and incorporated herein by reference).
3.3	Certificate of Second Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of May 19, 2016 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed May 20, 2016) and incorporated herein by reference.
3.4	Amended and Restated By-Laws of Dr Pepper Snapple Group, Inc. effective as of January 25, 2016 (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K (filed January 25, 2016) and incorporated herein by reference).
4.1	Indenture, dated April 30, 2008, between Dr Pepper Snapple Group, Inc. and Wells Fargo Bank, N.A. (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
4.2	Form of 6.12% Senior Notes due 2013 (filed as Exhibit 4.2 to, and included as Exhibit A-1 to Exhibit 4.1 to, the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
4.3	Form of 6.82% Senior Notes due 2018 (filed as Exhibit 4.3 to, and included as Exhibit A-2 to Exhibit 4.1 to, the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
4.4	Form of 7.45% Senior Notes due 2038 (filed as Exhibit 4.4 to, and included as Exhibit A-3 to Exhibit 4.1 to, the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
4.5	Registration Rights Agreement, dated April 30, 2008, between Dr Pepper Snapple Group, Inc., J.P. Morgan Securities Inc., Banc of America Securities LLC, Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, UBS Securities LLC, BNP Paribas Securities Corp., Mitsubishi UFJ Securities International plc, Scotia Capital (USA) Inc., SunTrust Robinson Humphrey, Inc., Wachovia Capital Markets, LLC and TD Securities (USA) LLC (filed as Exhibit 4.5 to the Company's Current Report on Form 8-K (filed on May 1, 2008) and incorporated herein by reference).
4.6	Registration Rights Agreement Joinder, dated May 7, 2008, by the subsidiary guarantors named therein (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
4.7	Supplemental Indenture, dated May 7, 2008, among Dr Pepper Snapple Group, Inc., the subsidiary guarantors named therein and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
4.8	Second Supplemental Indenture dated March 17, 2009, to be effective as of December 31, 2008, among Splash Transport, Inc., as a subsidiary guarantor, Dr Pepper Snapple Group, Inc., and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.8 to the Company's Annual Report on Form 10-K (filed on March 26, 2009) and incorporated herein by reference).

4.9	Third Supplemental Indenture, dated October 19, 2009, among 234DP Aviation, LLC, as a subsidiary guarantor; Dr Pepper Snapple Group, Inc., and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.9 to the Company's Quarterly Report on Form 10-Q (filed November 5, 2009) and incorporated herein by reference).
4.10	Fourth Supplemental Indenture, dated as of January 31, 2017, among Bai Brands LLC, a New Jersey limited liability company, 184 Innovations Inc., a Delaware corporation (each as a new subsidiary guarantors under the Indenture dated April 30, 2008 (as referenced in Item 4.1 in this Exhibit Index), Dr Pepper Snapple Group, Inc., each other then-existing Guarantor under the Indenture and Wells Fargo, National Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed February 2, 2017) and incorporated herein by reference).
4.11	Indenture, dated as of December 15, 2009, between Dr Pepper Snapple Group, Inc. and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on December 23, 2009) and incorporated herein by reference).
4.12	Second Supplemental Indenture, dated as of January 11, 2011, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on January 11, 2011) and incorporated herein by reference).
4.13	2.90% Senior Note due 2016 (in global form), dated January 11, 2011, in the principal amount of $500 million (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on January 11, 2011) and incorporated herein by reference).
4.14	Third Supplemental Indenture, dated as of November 15, 2011, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).

Table of Contents

4.15	2.60% Senior Note due 2019 (in global form), dated November 15, 2011, in the principal amount of $250 million (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).
4.16	3.20% Senior Note due 2021 (in global form), dated November 15, 2011, in the principal amount of $250 million (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 15, 2011) and incorporated herein by reference).
4.17	Fourth Supplemental Indenture, dated as of November 20, 2012, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
4.18	2.00% Senior Note due 2020 (in global form), dated November 20, 2012, in the principal amount of $250 million (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
4.19	2.70% Senior Note due 2022 (in global form), dated November 20, 2012, in the principal amount of $250 million (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 20, 2012) and incorporated herein by reference).
4.20	Fifth Supplemental Indenture, dated as of November 9, 2015, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).
4.21	3.40% Senior Note due 2025 (in global form), dated November 9, 2015, in the principal amount of $500,000,000 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).
4.22	4.50% Senior Note due 2045 (in global form), dated November 9, 2015, in the principal amount of $250,000,000 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on November 10, 2015) and incorporated herein by reference).
4.23	Sixth Supplemental Indenture, dated as of September 16, 2016, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on September 16, 2016) and incorporated herein by reference).
4.24	2.55% Senior Note due 2026 (in global form), dated September 16, 2016, in the principal amount of $400,000,000 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on September 16, 2016) and incorporated herein by reference).
4.25	Seventh Supplemental Indenture, dated as of December 14, 2016, among Dr Pepper Snapple Group, Inc., the guarantors party thereto and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
4.26	2.53% Senior Note due 2021 (in global form), dated December 14, 2016, in the principal amount of $250,000,000 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
4.27	3.13% Senior Note due 2023 (in global form), dated December 14, 2016, in the principal amount of $500,000,000 (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
4.28	3.43% Senior Note due 2027 (in global form), dated December 14, 2016, in the principal amount of $400,000,000 (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
4.29	4.42% Senior Note due 2046 (in global form), dated December 14, 2016, in the principal amount of $400,000,000 (filed as Exhibit 4.5 to the Company's Current Report on Form 8-K (filed on December 14, 2016) and incorporated herein by reference).
4.30	Eighth Supplemental Indenture, dated as of January 31, 2017, among Bai Brands LLC, a New Jersey limited liability company, 184 Innovations Inc., a Delaware corporation (each as a new subsidiary guarantor under the Indenture dated April 30, 2008 (as referenced in Item 4.1 in this Exhibit Index)), Dr Pepper Snapple Group, Inc.,

	each other then-existing Guarantor under the Indenture) and Wells Fargo, National Bank, N.A., as trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed February 2, 2017) and incorporated herein by reference).
4.31	Ninth Supplemental Indenture, dated as of June 15, 2017, among Dr Pepper Snapple Group, Inc., the guarantors party thereto, and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (filed on June 15, 2017) and incorporated herein by reference).
4.32	Registration Rights Agreement, dated June 15, 2017, between Dr Pepper Snapple Group, Inc., the guarantors party thereto, Morgan Stanley & Co. LLC, Goldman Sachs & Co. LLC, and J.P. Morgan Securities LLC (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (filed on June 15, 2017) and incorporated herein by reference).
10.1	Tax Sharing and Indemnification Agreement between Cadbury Schweppes plc and Dr Pepper Snapple Group, Inc. and, solely for the certain provision set forth therein, Cadbury plc, dated as of May 1, 2008 (initially filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (initially filed on May 5, 2008), refiled as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (filed on May 6, 2010) solely for the purpose of including previously omitted exhibits and incorporated herein by reference).
10.2	Employee Matters Agreement between Cadbury Schweppes plc and Dr Pepper Snapple Group, Inc. and, solely for certain provisions set forth therein, Cadbury plc, dated as of May 1, 2008 (initially filed as Exhibit 10.3 to the Company's Current Report on Form 8-K (filed on May 5, 2008), refiled as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (filed on May 6, 2010) solely for the purpose of including previously omitted exhibits and incorporated herein by reference).

10.3	Form of Dr Pepper License Agreement for Bottles, Cans and Pre-mix (filed as Exhibit 10.9 to Amendment No. 2 to the Company's Registration Statement on Form 10 (filed on February 12, 2008) and incorporated herein by reference).
10.4	Form of Dr Pepper Fountain Concentrate Agreement (filed as Exhibit 10.10 to Amendment No. 3 to the Company's Registration Statement on Form 10 (filed on March 20, 2008) and incorporated herein by reference).
10.5	Executive Employment Agreement, dated as of October 15, 2007, between CBI Holdings Inc. (now known as DPS Holdings Inc.) and Larry D. Young (filed as Exhibit 10.11 to Amendment No. 2 to the Company's Registration Statement on Form 10 (filed on February 12, 2008) and incorporated herein by reference).
10.6	First Amendment to Executive Employment Agreement, effective as of February 11, 2009, between DPS Holdings, Inc. and Larry D. Young (filed as Exhibit 99.2 to the Company's Current Report on Form 8-K (filed on February 18, 2009) and incorporated herein by reference).
10.7	Second Amendment to Executive Employment Agreement, effective as of August 11, 2009, between DPS Holdings, Inc. and Larry D. Young (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (filed on August 13, 2009) and incorporated herein by reference).
10.8	Letter Agreement, effective as of November 23, 2008, between Dr Pepper Snapple Group, Inc. and James J. Johnston (filed as Exhibit 10.20 to the Company's Form 10-K (filed on March 1, 2010) and incorporated herein by reference).
10.9	Letter Agreement, effective as of November 23, 2008, between Dr Pepper Snapple Group, Inc. and Rodger L. Collins (filed as Exhibit 10.24 to the Company's Form 10-K (filed on March 1, 2010) and incorporated herein by reference).
10.10	Letter Agreement, effective as of April 1, 2010, between Dr Pepper Snapple Group, Inc. and Martin M. Ellen (filed as Exhibit 10.25 to the Company's Form 10-K (filed on March 1, 2010) and incorporated herein by reference).
10.11	Executive Employment Agreement, effective as of October 15, 2017, between CBI Holdings Inc. and James L. Baldwin (filed as exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (filed on April 26, 2017) and incorporated herein by reference).
10.12	Dr Pepper Snapple Group, Inc. Employee Stock Purchase Plan (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
10.13	Dr Pepper Snapple Group, Inc. Omnibus Stock Incentive Plan of 2009 approved by the Stockholders on May 19, 2009, and re-approved by the Stockholders on May 15, 2014 (filed as Annex "A" to the Company's Preliminary Proxy Statement on Form DEFA14A (filed April 1, 2014) and incorporated herein by reference).
10.14	Dr Pepper Snapple Group, Inc. Management Incentive Plan of 2009 approved by the Stockholders on May 19, 2009, and re-approved by the Stockholders on May 16, 2013 (filed as Appendix A to the Company's Preliminary Proxy Statement on Form DEF14A (filed March 25, 2013) and incorporated herein by reference).
10.15	Dr Pepper Snapple Group, Inc. Change in Control Severance Plan adopted on February 11, 2009 (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K (filed February 18, 2009) and incorporated herein by reference).
10.16	First Amendment to the Dr Pepper Snapple Group, Inc. Change in Control Severance Plan, effective as of February 24, 2010 (filed as Exhibit 10.40 to the Company's Form 10-K (filed on March 1, 2010) and incorporated herein by reference).
10.17	Letter Agreement, dated December 7, 2009, between Dr Pepper Snapple Group, Inc. and PepsiCo, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on December 8, 2009) and incorporated herein by reference).
10.18	Letter Agreement, dated June 7, 2010, between Dr Pepper/Seven Up, Inc. and The Coca-Cola Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on June 7, 2010) and incorporated herein by reference).
10.19	Commercial Paper Dealer Agreement between Dr Pepper Snapple Group, Inc. and J.P. Morgan Securities LLC, dated as of December 10, 2010 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on

	December 13, 2010) and incorporated herein by reference). In accordance with Instruction 2 to Item 601 of Regulation S-K, the Company has filed only one Dealer Agreement, as the other Dealer Agreements are substantially identical in all material respects except as to the parties thereto and the notice provisions.
10.20	Credit Agreement, dated as of September 25, 2012, among the Company, the Lenders and Issuing Banks party thereto; JPMorgan Chase Bank, N.A., as Administrative Agent; Bank of America, N.A. and Deutsche Bank Securities Inc., as Syndication Agents, and Branch Banking and Trust Company, Credit Suisse AG, Cayman Islands Branch, HSBC Bank USA, N.A., Morgan Senior Funding, Inc., UBS Securities LLC and U.S. Bank National Association, as Co-Documentation Agents (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on September 26, 2012 and incorporated herein by reference).
10.21	Credit Agreement, dated as of March 16, 2017, among the Company, the lenders and issuing banks party thereto; JPMorgan Chase Bank, N.A., as administrative agent; and the syndication agents, documentation agents, joint lead arrangers and joint borrowers, as identified in the Credit Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8–K (filed on March 17, 2017) and incorporated herein by reference).
10.22	Assumption Agreement dated as of January 31, 2017 by Bai Brands LLC and 184 Innovations, Inc., (each as an additional guarantor under the Credit Agreement dated September 25, 2012 (as referenced in Item 10.22 in this Exhibit Index)), in favor of the Administrative Agent and each Lender (as each such term is defined in the Credit Agreement) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed February 2, 2017) and incorporated herein by reference).
10.23†	Agreement dated July 22, 2013, among The American Bottling Company, Mott's LLP and CROWN Cork & Seal USA, Inc., filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K (filed February 20, 2014) and incorporated herein by this reference.
10.24	First Amendment to Omnibus Stock Incentive Plan of 2009 approved by the Board of Directors and the Compensation Committee of the Board of Directors of Dr Pepper Snapple Group, Inc. on September 18, 2013 filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (filed on October 24, 2013) and incorporated herein by reference.

Table of Contents

10.25	Non-Employee Director Deferral Plan approved by the Board of Directors and the Compensation Committee of the Board of Directors of Dr Pepper Snapple Group, Inc. on September 18, 2013 filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (filed on October 24, 2013) and incorporated herein by this reference.
10.26	Agreement, dated as of October 15, 2007, between CBI Holdings Inc. (now known as DPS Holdings Inc.) and Derry Hobson, filed as Exhibit 10.32 to the Company's Annual Report on Form 10-K (filed February 20, 2014) and incorporated herein by this reference.
10.27	Amendment to Employment Agreement, effective as of February 11, 2009, between DPS Holdings, Inc. and Derry Hobson (filed as Exhibit 10.33 to the Company's Annual Report on Form 10-K (filed February 20, 2014) and incorporated herein by this reference).
10.28	Dr Pepper Snapple Group, Inc. Omnibus Stock Incentive Plan of 2009, as amended and approved by the Stockholders on May 15, 2014 (filed as Exhibit 10.34 to the Company's Annual Report on Form 10-K (filed February 19, 2015) and incorporated herein by reference).
10.29	First Amendment, dated as of August 21, 2015, to Credit Agreement dated as of September 25, 2012, by and among the Loan Parties and the Administrative Agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on August 25, 2015) and incorporated herein by reference).
10.30	Severance Pay Plan for Executives, dated to be effective as of October 15, 2017 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (filed on October 25, 2017) and incorporated herein by reference).
10.31	Purchase Agreement, dated June 5, 2017, between Dr Pepper Snapple Group, Inc., Morgan Stanley & Co. LLC, Goldman Sachs & Co. LLC, and J.P. Morgan Securities LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (filed on June 6, 2017) and incorporated herein by reference).
12.1*	Computation of Ratio of Earnings to Fixed Charges.
14.1	Dr Pepper Snapple Group, Inc. Code of Conduct approved by the Board of Directors on September 16, 2015 (filed as Exhibit 14.1 to the Company's Current Report on Form 8-K (filed on September 16, 2015) and incorporated herein by reference).
21.1*	List of Subsidiaries (as of December 31, 2017)
23.1*	Consent of Deloitte & Touche LLP
31.1*	Certification of Chief Executive Officer of Dr Pepper Snapple Group, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) promulgated under the Exchange Act.
31.2*	Certification of Chief Financial Officer of Dr Pepper Snapple Group, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) promulgated under the Exchange Act.
32.1**	Certification of Chief Executive Officer of Dr Pepper Snapple Group, Inc. pursuant to Rule 13a-14(b) or 15d-14(b) promulgated under the Exchange Act, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2**	Certification of Chief Financial Officer of Dr Pepper Snapple Group, Inc. pursuant to Rule 13a-14(b) or 15d-14(b) promulgated under the Exchange Act, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
101*	The following financial information from Dr Pepper Snapple Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015, (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015, (iii) Consolidated Balance Sheets as of December 31, 2017 and 2016, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015, (v) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2017, 2016 and 2015, and (vi) the Notes to Audited Consolidated Financial Statements.

* Filed herewith.

† Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission as part of an application for confidential treatment pursuant to the Securities and Exchange Act of 1934 as amended.

** Furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dr Pepper Snapple Group, Inc.

	By:	/s/ Martin M. Ellen
Date: February 14, 2018	Name:	Martin M. Ellen
	Title:	Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ Larry D. Young	By:	/s/ Martin M. Ellen
Name:	Larry D. Young	Name:	Martin M. Ellen
Title:	President, Chief Executive Officer and Director	Title:	Executive Vice President and Chief Financial Officer
Date:	February 14, 2018	Date:	February 14, 2018
By:	/s/ Angela A. Stephens	By:	/s/ Wayne R. Sanders
Name:	Angela A. Stephens	Name:	Wayne R. Sanders
Title:	Senior Vice President and Controller (Principal Accounting Officer)	Title:	Chairman
Date:	February 14, 2018	Date:	February 14, 2018
By:	/s/ David E. Alexander	By:	/s/ Antonio Carrillo
Name:	David E. Alexander	Name:	Antonio Carrillo
Title:	Director	Title:	Director
Date:	February 14, 2018	Date:	February 14, 2018
By:	/s/ José Gutiérrez	By:	/s/ Pamela H. Patsley
Name:	José Gutiérrez	Name:	Pamela H. Patsley
Title:	Director	Title:	Director
Date:	February 14, 2018	Date:	February 14, 2018
By:	/s/ Ronald G. Rogers	By:	/s/ Dunia A. Shive
Name:	Ronald G. Rogers	Name:	Dunia A. Shive
Title:	Director	Title:	Director
Date:	February 14, 2018	Date:	February 14, 2018
By:	/s/ M. Anne Szostak		
Name:	M. Anne Szostak		
Title:	Director		
Date:	February 14, 2018		