Ingredion Inc
Form 10-Q
August 02, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED June 30, 2013

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 1-13397

Ingredion Incorporated

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

22-3514823

(I.R.S. Employer Identification Number)

5 WESTBROOK CORPORATE CENTER, WESTCHESTER, ILLINOIS	**60154**
(Address of principal executive offices)	(Zip Code)

(708) 551-2600

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

CLASS	**OUTSTANDING AT July 31, 2013**
Common Stock, $.01 par value	77,538,000 shares

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (Ingredion)

Condensed Consolidated Statements of Income

(Unaudited)

(In millions, except per share amounts)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net sales before shipping and handling costs	$ 1,715.4	$ 1,719.7	$ 3,377.9	$ 3,377.7
Less: shipping and handling costs	82.0	84.7	160.6	168.5
Net sales	1,633.4	1,635.0	3,217.3	3,209.2
Cost of sales	1,357.4	1,339.8	2,635.7	2,618.1
Gross profit	276.0	295.2	581.6	591.1
Operating expenses	138.5	131.5	274.1	267.7
Other (income), net	(2.6)	(2.8)	(7.7)	(7.8)
Restructuring / impairment charges		13.6		17.4
Operating income	140.1	152.9	315.2	313.8
Financing costs, net	16.3	17.2	33.0	36.7
Income before income taxes	123.8	135.7	282.2	277.1
Provision for income taxes	27.1	25.0	73.5	70.8
Net income	96.7	110.7	208.7	206.3
Less: Net income attributable to non-controlling interests	1.6	1.6	2.9	3.0
Net income attributable to Ingredion	$ 95.1	$ 109.1	$ 205.8	$ 203.3
Weighted average common shares outstanding:				
Basic	77.6	76.6	77.5	76.5
Diluted	78.9	77.9	78.8	77.9
Earnings per common share of Ingredion:				
Basic	$ 1.22	$ 1.42	$ 2.65	$ 2.66
Diluted	$ 1.20	$ 1.40	$ 2.61	$ 2.61

See Notes to Condensed Consolidated Financial Statements

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PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (Ingredion)

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$ 97	$ 111	$ 209	$ 206
Other comprehensive income (loss):				
Gains (losses) on cash flow hedges, net of income tax effect of $8, $19, $11 and $3, respectively	(16)	34	(26)	5
Amount of (gains) losses on cash flow hedges reclassified to earnings, net of income tax effect of $2, $5, $5 and $8, respectively	3	10	(8)	14
Losses related to pension and other postretirement obligations reclassified to earnings, net of income tax effect	2		3	
Unrealized gain on investment, net of income tax effect	1		1	
Currency translation adjustment	(88)	(78)	(110)	(41)
Comprehensive income (loss)	(1)	77	69	184
Comprehensive income attributable to non-controlling interests	(2)	(2)	(3)	(3)
Comprehensive income (loss) attributable to Ingredion	$ (3)	$ 75	$ 66	$ 181

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM I - FINANCIAL STATEMENTS

Ingredion Incorporated (Ingredion)

Condensed Consolidated Balance Sheets

(In millions, except share and per share amounts)		June 30, 2013 (Unaudited)		December 31, 2012
Assets				
Current assets				
Cash and cash equivalents	$	569	$	609
Short-term investments				19
Accounts receivable net		828		814
Inventories		856		834
Prepaid expenses		24		19
Deferred income taxes		77		65
Total current assets		2,354		2,360
Property, plant and equipment - net of accumulated depreciation of $2,728 and $2,715, respectively		2,131		2,193
Goodwill		542		557
Other intangible assets - net of accumulated amortization of $41 and $35, respectively		316		329
Deferred income taxes		17		21
Investments		11		10
Other assets		105		122
Total assets	$	5,476	$	5,592
Liabilities and equity				
Current liabilities				
Short-term borrowings and current portion of long-term debt	$	91	$	76
Deferred income taxes		2		2
Accounts payable and accrued liabilities		717		855
Total current liabilities		810		933
Non-current liabilities		285		297
Long-term debt		1,719		1,724
Deferred income taxes		163		160
Share-based payments subject to redemption		19		19
Equity				
Ingredion Stockholders equity:				
Preferred stock authorized 25,000,000 shares- $0.01 par value none issued				
Common stock authorized 200,000,000 shares- $0.01 par value 77,635,694 and 77,141,691 shares issued at June 30, 2013 and December 31, 2012, respectively		1		1
Additional paid-in capital		1,163		1,148
Less: Treasury stock (common stock; 111,860 and 109,768 shares at June 30, 2013 and December 31, 2012, respectively) at cost		(7)		(6)
Accumulated other comprehensive loss		(615)		(475)

Retained earnings		**1,916**		**1,769**
Total Ingredion stockholders equity		**2,458**		**2,437**
Non-controlling interests		**22**		**22**
Total equity		**2,480**		**2,459**
Total liabilities and equity	**$**	**5,476**	**$**	**5,592**

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (Ingredion)

Condensed Consolidated Statements of Equity and Redeemable Equity

(Unaudited)

	Total Equity						
(in millions)	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interests	Share-based Payments Subject to Redemption
Balance, December 31, 2012	**$ 1**	**$ 1,148**	**$ (6)**	**$ (475)**	**$ 1,769**	**$ 22**	**$ 19**
Net income attributable to Ingredion					**206**		
Net income attributable to non-controlling interests						**3**	
Dividends declared					**(59)**	**(3)**	
Losses on cash flow hedges, net of income tax effect of $11				**(26)**			
Amount of gains on cash flow hedges reclassified to earnings, net of income tax effect of $5				**(8)**			
Losses related to pension and other postretirement obligations reclassified to earnings, net of income tax effect				**3**			
Unrealized gain on investment, net of income tax effect				**1**			
Share-based compensation		**15**	**(1)**				
Currency translation adjustment				**(110)**			
Balance, June 30, 2013	**$ 1**	**$ 1,163**	**$ (7)**	**$ (615)**	**$ 1,916**	**$ 22**	**$ 19**

				Total Equity			
(in millions)	**Common Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Non-controlling Interests**	**Share-based Payments Subject to Redemption**
Balance, December 31, 2011	**$ 1**	**$ 1,146**	**$ (42)**	**$ (413)**	**$ 1,412**	**$ 29**	**$ 15**
Net income attributable to Ingredion					**203**		
Net income attributable to non-controlling interests						**3**	
Dividends declared					**(30)**	**(3)**	
Gains on cash flow hedges, net of income tax effect of $3				**5**			
Amount of losses on cash flow hedges reclassified to earnings, net of income tax effect of $8				**14**			
Repurchases of common stock			**(16)**				
Share-based compensation		**(7)**	**27**				**(2)**
Currency translation adjustment				**(41)**			
Other						**(1)**	
Balance, June 30, 2012	**$ 1**	**$ 1,139**	**$ (31)**	**$ (435)**	**$ 1,585**	**$ 28**	**$ 13**

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (Ingredion)

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In millions)	Six Months Ended June 30, 2013	2012
Cash provided by operating activities:		
Net income	$ 209	$ 206
Non-cash charges to net income:		
Write-off of impaired assets		6
Depreciation and amortization	98	107
Changes in working capital:		
Accounts receivable and prepaid items	(89)	(48)
Inventories	(48)	(17)
Accounts payable and accrued liabilities	(139)	(38)
Decrease in margin accounts	14	56
Other	67	46
Cash provided by operating activities	112	318
Cash used for investing activities:		
Capital expenditures, net of proceeds on disposals	(132)	(128)
Short-term investments	19	
Other	2	
Cash used for investing activities	(111)	(128)
Cash used for financing activities:		
Proceeds from borrowings	22	20
Payments on debt	(3)	(131)
Repurchases of common stock	(1)	(16)
Issuances of common stock	11	13
Dividends paid (including to non-controlling interests)	(52)	(33)
Excess tax benefit on share-based compensation		1
Cash used for financing activities	(23)	(146)
Effect of foreign exchange rate changes on cash	(18)	(5)
Increase (decrease) in cash and cash equivalents	(40)	39
Cash and cash equivalents, beginning of period	609	401
Cash and cash equivalents, end of period	$ 569	$ 440

See Notes to Condensed Consolidated Financial Statements

INGREDION INCORPORATED (Ingredion)

Notes to Condensed Consolidated Financial Statements

1. Interim Financial Statements

References to the Company are to Ingredion Incorporated (Ingredion) and its consolidated subsidiaries. These statements should be read in conjunction with the consolidated financial statements and the related notes to those statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The unaudited condensed consolidated interim financial statements included herein were prepared by management on the same basis as the Company s audited consolidated financial statements for the year ended December 31, 2012 and reflect all adjustments (consisting solely of normal recurring items unless otherwise noted) which are, in the opinion of management, necessary for the fair presentation of results of operations and cash flows for the interim periods ended June 30, 2013 and 2012, and the financial position of the Company as of June 30, 2013. The results for the interim periods are not necessarily indicative of the results expected for the full years.

2. New Accounting Standards

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, which requires new asset and liability offsetting disclosures for derivatives, repurchase agreements and security lending transactions to the extent that they are: (1) offset in the financial statements; or (2) subject to an enforceable master netting arrangement or similar agreement. This Update requires an entity to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and was effective for the Company in the first quarter of 2013. The Company s derivative instruments are not offset in the financial statements and are not subject to right of offset provisions with our counterparties. Accordingly, this Update did not have a material impact on the Company s 2013 Condensed Consolidated Financial Statements but could have an impact on future disclosures. Additional information about derivative instruments can be found in Note 5 of the Notes to the Condensed Consolidated Financial Statements.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This Update does not change the current requirements for reporting net income or other comprehensive income in financial statements; however, it requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income for only amounts reclassified in their entirety in the same reporting period. This guidance is effective for annual periods beginning after December 15, 2012, and interim periods within those annual periods. The disclosures required by this Update are provided in Note 9 of the Notes to the Condensed Consolidated Financial Statements.

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* This Update clarifies the guidance pertaining to the release of the cumulative translation adjustment (CTA) to resolve diversity in practice. The Update clarifies that when a company ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, the company should release any related CTA into net income. In such instances, the CTA should be released into net income only if a sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The Update also requires the release of the CTA (or applicable pro rata portion thereof) upon the sale or partial sale of an equity method investment that is a foreign entity and for a step acquisition in which the acquirer held an equity method investment prior to obtaining control. The guidance in this Update is effective prospectively for fiscal years beginning after December 15, 2013, and interim periods within those fiscal years. The adoption of the guidance contained in this Update will impact the accounting for the CTA upon the de-recognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity; and the effect will be dependent upon a relevant transaction at that time.

3. Restructuring and Asset Impairment Charges

In the second quarter of 2012, the Company decided to restructure its business operations in Kenya and close its manufacturing plant in the country. As part of that decision, the Company recorded a $10 million restructuring charge to its second quarter 2012 Statement of Income consisting of a $6 million fixed asset impairment charge, a $2 million charge to reduce certain working capital balances to fair value based on the announced closure, and $2 million of costs primarily consisting of severance pay related to the termination of the majority of its employees in Kenya. The Company incurred $10 million of additional restructuring costs during the second half of 2012 related to the plant closure. Most of these costs were recorded in the fourth quarter of 2012 and included an $8 million charge to realize the cumulative translation adjustment associated with the Kenyan operations.

Additionally, as part of a manufacturing optimization program developed to improve profitability in conjunction with the acquisition of National Starch, in the second quarter of 2011 the Company committed to a plan to optimize its production capabilities at certain of its North American facilities. As a result, the Company recorded restructuring charges to write-off certain equipment by the plan completion date. The plan was completed in October 2012 and the equipment has been completely written off. For the second quarter and first-half of 2012, the Company recorded charges of $4 million and $7 million, respectively, of which $3 million and $6 million represent accelerated depreciation on the equipment.

4. Segment Information

The Company is principally engaged in the production and sale of starches and sweeteners for a wide range of industries, and is managed geographically on a regional basis. The Company s operations are classified into four reportable business segments: North America, South America, Asia Pacific and Europe, the Middle East and Africa (EMEA). The North America segment includes businesses in the United States, Canada and Mexico. The Company s South America segment includes businesses in Brazil, Colombia, Ecuador, Peru and the Southern Cone of South America, which includes Argentina, Chile and Uruguay. The

Asia Pacific segment includes businesses in Korea, Thailand, Malaysia, China, Japan, Indonesia, the Philippines, Singapore, India, Australia and New Zealand. The Company s EMEA segment includes businesses in the United Kingdom, Germany, South Africa, Pakistan and Kenya.

(in millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net Sales				
North America	$ 976.8	$ 949.7	$ 1,886.7	$ 1,841.5
South America	320.8	349.1	669.5	716.6
Asia Pacific	200.2	208.1	395.7	397.2
EMEA	135.6	128.1	265.4	253.9
Total	$ 1,633.4	$ 1,635.0	$ 3,217.3	$ 3,209.2
Operating Income				
North America	$ 103.9	$ 96.9	$ 211.6	$ 196.9
South America	17.3	47.3	60.6	92.9
Asia Pacific	23.6	22.9	46.7	43.2
EMEA	16.9	18.8	36.2	37.6
Corporate	(21.6)	(18.1)	(39.9)	(35.7)
Sub-total	140.1	167.8	315.2	334.9
Restructuring/impairment charges		(13.6)		(17.4)
Integration costs		(1.3)		(3.7)
Total	$ 140.1	$ 152.9	$ 315.2	$ 313.8

(in millions)	At June 30, 2013	At December 31, 2012
Total Assets		
North America	$ 3,142	$ 3,116
South America	1,102	1,230
Asia Pacific	711	730
EMEA	521	516
Total	$ 5,476	$ 5,592

5. Financial Instruments, Derivatives and Hedging Activities

The Company has manufacturing operations in North America, South America, Asia Pacific and EMEA. The Company s products are made primarily from corn.

The Company is exposed to market risk stemming from changes in commodity prices (corn and natural gas), foreign currency exchange rates and interest rates. In the normal course of business, the Company actively manages its exposure to these market risks by entering into various hedging transactions, authorized under established policies that place clear controls on these activities. These transactions utilize exchange-traded derivatives or over-the-counter derivatives with investment grade counterparties. Derivative financial instruments currently used by the Company consist of commodity futures, options and swap contracts, foreign currency forward contracts, swaps and options, and interest rate swaps.

Commodity price hedging: The Company s principal use of derivative financial instruments is to manage commodity price risk in North America relating to anticipated purchases of corn and natural gas to be used in the manufacturing process, generally over the next twelve to eighteen months. To manage price risk related to corn purchases in North America, the Company uses corn futures and options contracts that trade on regulated commodity exchanges to lock-in its corn costs associated with firm-priced customer sales contracts. The Company uses over-the-counter gas swaps to hedge a portion of its natural gas usage in North America. These derivative financial instruments limit the impact that fluctuations in market prices will have on corn and natural gas purchases and have been designated as cash flow hedges. Unrealized gains and losses associated with marking the commodity hedging contracts to market are recorded as a component of other comprehensive income (OCI) and included in the equity section of the Condensed Consolidated Balance Sheets as part of accumulated other comprehensive income/loss (AOCI). These amounts are subsequently reclassified into earnings in the month in which the related corn or natural gas impacts earnings or in the month a hedge is determined to be ineffective. The Company assesses the effectiveness of a commodity hedge contract based on changes in the contract s fair value. The changes in the market value of such contracts have historically been, and are expected to continue to be, highly effective at offsetting changes in the price of the hedged items. The amounts representing the ineffectiveness of these cash flow hedges are not significant.

At June 30, 2013, AOCI included $42 million of losses, net of income taxes of $20 million, pertaining to commodities-related derivative instruments designated as cash flow hedges. At December 31, 2012, AOCI included $7 million of losses, net of income taxes of $4 million, pertaining to commodities-related derivative instruments designated as cash-flow hedges.

Interest rate hedging: Derivative financial instruments that have been used by the Company to manage its interest rate risk consist of Treasury Lock agreements (T-Locks) and interest rate swaps. The Company did not have any T-locks outstanding at June 30, 2013 or December 31, 2012. The Company has interest rate swap agreements that effectively convert the interest rate on its 3.2 percent $350 million senior notes due November 1, 2015 to a variable rate. These swap agreements call for the Company to receive interest at a fixed rate (3.2 percent) and to pay interest at a variable rate based on the six-month US dollar LIBOR rate plus a spread. The Company has designated these interest rate swap agreements as hedges of the changes in fair value of the underlying debt obligation attributable to changes in interest rates and accounts for them as fair value hedges. Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability in the fair value of outstanding debt obligations are reported in earnings. These amounts offset the gain or loss associated with the change in fair value of the hedged debt instrument that is attributable to changes in interest rates (that is, the hedged risk), which is also recognized in earnings. The fair value of these interest rate swap agreements at June 30, 2013 and December 31, 2012 was $15 million and $20 million, respectively, and is reflected in the Condensed

Consolidated Balance Sheets within other non-current assets, with an offsetting amount recorded in long-term debt to adjust the carrying amount of the hedged debt obligation.

At June 30, 2013, AOCI included $9 million of losses (net of income taxes of $6 million) related to settled T-Locks. At December 31, 2012, AOCI included $10 million of losses (net of income taxes of $6 million) related to settled T-Locks. These deferred losses are being amortized to financing costs over the terms of the senior notes with which they are associated.

Foreign currency hedging: Due to the Company s global operations, it is exposed to fluctuations in foreign currency exchange rates. As a result, the Company has exposure to translational foreign exchange risk when its foreign operation results are translated to US dollars and to transactional foreign exchange risk when transactions not denominated in the functional currency of the operating unit are revalued. The Company primarily uses derivative financial instruments such as foreign currency forward contracts, swaps and options to manage its transactional foreign exchange risk. These derivative financial instruments are primarily accounted for as fair value hedges. At June 30, 2013, the Company had foreign currency forward sales contracts with an aggregate notional amount of $440 million and foreign currency forward purchase contracts with an aggregate notional amount of $87 million that hedged transactional exposures. At December 31, 2012, the Company had foreign currency forward sales contracts with an aggregate notional amount of $268 million and foreign currency forward purchase contracts with an aggregate notional amount of $167 million that hedged transactional exposures. The fair value of these derivative instruments are assets of $2 million at June 30, 2013 and liabilities of $5 million at December 31, 2012, respectively.

The fair value and balance sheet location of the Company s derivative instruments accounted for as cash flow hedges and presented gross on the Condensed Consolidated Balance Sheets are reflected below:

Fair Value of Derivative Instruments

Derivatives designated as hedging instruments: (in millions)	**Balance Sheet Location**	**Fair Value At June 30, 2013**	**Fair Value At December 31, 2012**	**Balance Sheet Location**	**Fair Value At June 30, 2013**	**Fair Value At December 31, 2012**
Commodity and foreign currency contracts	*Accounts receivable-net*	$ 1	$ 5	*Accounts payable and accrued liabilities*	$ 44	$ 34
				Non-current liabilities	4	6
Total		$ 1	$ 5		$ 48	$ 40

At June 30, 2013, the Company had outstanding futures and option contracts that hedged the forecasted purchase of approximately 51 million bushels of corn and 24 million pounds of soy bean oil. The Company is unable to directly hedge price risk related to co-product sales; however, it enters into hedges of soybean oil (a competing product to corn oil) in order to mitigate the price risk of corn oil sales. Also at June 30, 2013, the Company had outstanding swap and option contracts that hedged the forecasted purchase of approximately 13 million mmbtu s of natural gas.

Additional information relating to the Company s derivative instruments is presented below (in millions, pre-tax):

Derivatives in Cash Flow Hedging Relationships	Amount of Gains (Losses) Recognized in OCI on Derivatives Three Months Ended June 30, 2013	Amount of Gains (Losses) Recognized in OCI on Derivatives Three Months Ended June 30, 2012	Location of Gains (Losses) Reclassified from AOCI into Income	Amount of Gains (Losses) Reclassified from AOCI into Income Three Months Ended June 30, 2013	Amount of Gains (Losses) Reclassified from AOCI into Income Three Months Ended June 30, 2012
Commodity and foreign currency contracts	$ (24)	$ 53	*Cost of sales*	$ (4)	$ (14)
Interest rate contracts			*Financing costs, net*	(1)	(1)
Total	$ (24)	$ 53		$ (5)	$ (15)

Derivatives in Cash Flow Hedging Relationships	Amount of Gains (Losses) Recognized in OCI on Derivatives Six Months Ended June 30, 2013	Amount of Gains (Losses) Recognized in OCI on Derivatives Six Months Ended June 30, 2012	Location of Gains (Losses) Reclassified from AOCI into Income	Amount of Gains (Losses) Reclassified from AOCI into Income Six Months Ended June 30, 2013	Amount of Gains (Losses) Reclassified from AOCI into Income Six Months Ended June 30, 2012
Commodity and foreign currency contracts	$ (37)	$ 8	*Cost of sales*	$ 15	$ (20)
Interest rate contracts			*Financing costs, net*	(2)	(2)
Total	$ (37)	$ 8		$ 13	$ (22)

At June 30, 2013, AOCI included approximately $39 million of losses, net of income taxes of $19 million, on commodities-related derivative instruments designated as cash flow hedges that are expected to be reclassified into earnings during the next twelve months. The Company expects the losses to be offset by changes in the underlying commodities cost. Additionally at June 30, 2013, AOCI included approximately $2 million of losses on settled T-Locks, net of income taxes of $1 million, which are expected to be reclassified into earnings during the next twelve months.

Presented below are the fair values of the Company s financial instruments and derivatives for the periods presented:

(in millions)	At June 30, 2013 Total	Level 1	Level 2	Level 3	At December 31, 2012 Total	Level 1	Level 2	Level 3
Available for sale securities	$ 4	$ 4	$	$	$ 3	$ 3	$	$
Derivative assets	18	1	17		25	5	20	
Derivative liabilities	48	37	11		45	24	21	
Long-term debt	1,832		1,832		1,914		1,914	

Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of *the financial instrument. Level 2 inputs include 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, or inputs other than quoted prices that are observable for the asset or liability or can be derived principally from or corroborated by observable market data. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.*

The carrying values of cash equivalents, short-term investments, accounts receivable, accounts payable and short-term borrowings approximate fair values. Commodity futures, options and swap contracts, which are designated as hedges of specific volumes of commodities, are recognized at fair value. Foreign currency forward contracts, swaps and options hedge transactional foreign exchange risk related to assets and liabilities denominated in currencies other than the functional currency and are recognized at fair value. The fair value of the Company s long-term debt is estimated based on quotations of major securities dealers who are market makers in the securities. At June 30, 2013, the carrying value and fair value of the Company s long-term debt was $1.72 billion and $1.83 billion, respectively.

6. Share-Based Compensation

A summary of information with respect to share-based compensation is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(in millions)	**2013**	**2012**	**2013**	**2012**
Total share-based compensation expense included in net income	$ 4.3	$ 4.2	$ 8.9	$ 8.5
Income tax benefit related to share-based compensation included in net income	$ 1.3	$ 1.2	$ 2.7	$ 2.6

Stock Options:

Under the Company s stock incentive plan, stock options are granted at exercise prices that equal the market value of the underlying common stock on the date of grant. The options have a 10-year term and are exercisable upon vesting, which occurs evenly over a three-year period at the anniversary dates of the date of grant. Compensation expense is recognized on a straight-line basis for all awards.

The Company granted non-qualified options to purchase 416 thousand shares and 460 thousand shares of the Company s common stock during the six months ended June 30, 2013 and 2012, respectively. The fair value of each option grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Expected life (in years)	5.8	5.8
Risk-free interest rate	1.11%	1.07%
Expected volatility	32.64%	33.33%
Expected dividend yield	1.57%	1.18%

The expected life of options represents the weighted-average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and the Company s historical exercise patterns. The risk-free interest rate is based on the US Treasury yield curve in effect at the grant date for the period corresponding with the expected life of the options. Expected volatility is based on historical volatilities of the Company s common stock. Dividend yields are based on historical dividend payments.

Stock option activity for the six months ended June 30, 2013 was as follows:

(dollars and options in thousands, except per share amounts)	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	3,032	$ 35.66		
Granted	416	66.07		
Exercised	(371)	29.62		
Cancelled	(42)	51.16		
Outstanding at June 30, 2013	3,035	40.36	6.12	$ 76,852
Exercisable at June 30, 2013	2,224	33.27	5.09	$ 71,945

For the six months ended June 30, 2013, cash received from the exercise of stock options was $11 million. At June 30, 2013, the total remaining unrecognized compensation cost related to stock options approximated $11 million, which will be amortized over the weighted-average period of approximately 1.6 years.

Additional information pertaining to stock option activity is as follows:

(dollars in thousands, except per share)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Weighted average grant date fair value of stock options granted (per share)	$	$ 16.56	$ 17.87	$ 16.16
Total intrinsic value of stock options exercised	$ 3,467	$ 3,058	$ 14,652	$ 14,055

Restricted Shares of Common Stock and Restricted Stock Units:

The Company has granted shares of restricted common stock (restricted shares) and restricted stock units (restricted units) to certain key employees. The restricted shares and restricted units are subject to cliff vesting, generally after three to five years provided the employee remains in the service of the Company. The grant date fair value of the restricted shares and restricted units is determined based upon the number of shares granted and the ending market price of the Company s stock at the grant date. Expense recognized for restricted shares and restricted units for the three and six months ended June 30, 2013 aggregated $2 million and $4 million, respectively, as compared to $2 million and $3 million, in the comparable prior year periods.

The following table summarizes restricted share and restricted unit activity for the six months ended June 30, 2013:

(in thousands, except per share amounts)	Restricted Shares: Number of Restricted Shares	Restricted Shares: Weighted Average Grant Date Fair Value	Restricted Units: Number of Restricted Units	Restricted Units: Weighted Average Grant Date Fair Value
Non-vested at December 31, 2012	95	$ 29.69	385	$ 49.77
Granted			133	66.37
Vested	(33)	34.02	(10)	42.31
Cancelled	(1)	34.36	(24)	54.41
Non-vested at June 30, 2013	61	27.26	484	54.27

At June 30, 2013, the total remaining unrecognized compensation cost related to restricted shares was $0.3 million, which will be amortized over a weighted-average period of approximately 1.0 years. At June 30, 2013, the total remaining unrecognized compensation cost related to restricted units was $14 million, which will be amortized over a weighted-average period of approximately 1.7 years.

7. Net Periodic Pension and Postretirement Benefit Costs

For detailed information about the Company s pension and postretirement benefit plans, please refer to Note 9 of the Notes to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The following table sets forth the components of net periodic benefit cost of the US and non-US defined benefit pension plans for the periods presented:

	Three Months Ended June 30,				Six Months Ended June 30,			
	US Plans		Non-US Plans		US Plans		Non-US Plans	
(in millions)	2013	2012	2013	2012	2013	2012	2013	2012
Service cost	$ 2.0	$ 1.6	$ 2.3	$ 2.0	$ 3.9	$ 3.3	$ 4.7	$ 4.0
Interest cost	2.8	2.9	3.1	3.0	5.6	5.9	6.2	6.1
Expected return on plan assets	(4.6)	(4.0)	(3.0)	(2.7)	(9.1)	(8.1)	(6.0)	(5.4)
Amortization of net actuarial loss	0.5	0.6	1.2	1.0	1.0	1.1	2.5	1.9
Amortization of prior service credit							(0.1)	
Amortization of transition obligation			0.1	0.1			0.2	0.2
Net pension cost	$ 0.7	$ 1.1	$ 3.7	$ 3.4	$ 1.4	$ 2.2	$ 7.5	$ 6.8

The Company currently anticipates that it will make approximately $18 million in cash contributions to its pension plans in 2013, consisting of $4 million to its US pension plans and $14 million to its non-US pension plans. For the six months ended June 30, 2013, cash contributions of approximately $5 million were made to the non-US plans. No cash contributions were made to the US plans during the first half of 2013.

The following table sets forth the components of net postretirement benefit cost for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2013	2012	2013	2012
Service cost	$ 0.8	$ 0.6	$ 1.6	$ 1.2
Interest cost	1.0	0.8	2.0	1.7
Amortization of prior service cost		0.1		0.1
Amortization of net actuarial loss	0.3	0.1	0.6	0.2
Net postretirement benefit cost	$ 2.1	$ 1.6	$ 4.2	$ 3.2

8. Inventories

Inventories are summarized as follows:

(in millions)	At June 30, 2013	At December 31, 2012
Finished and in process	$ 509	$ 475
Raw materials	301	313
Manufacturing supplies and other	46	46
Total inventories	$ 856	$ 834

9. Accumulated Other Comprehensive Loss

A summary of accumulated other comprehensive loss for the six months ended June 30, 2013 and 2012 is provided below:

(in millions)	Cumulative Translation Adjustment	Deferred Gain/(Loss) on Hedging Activities	Pension Liability Adjustment	Unrealized Loss on Investment	Accumulated Other Comprehensive Loss
Balance, December 31, 2012	$ (335)	$ (17)	$ (121)	$ (2)	$ (475)
Losses on cash flow hedges, net of income tax effect of $11		(26)			(26)
Amount of gains on cash flow hedges reclassified to earnings, net of income tax effect of $5		(8)			(8)
Losses related to pension and other postretirement obligations reclassified to earnings, net of income tax effect			3		3
Unrealized gain on investment, net of income tax effect					