Ingredion Inc
Form 10-Q
July 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2016

or

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 No

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 No

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

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

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 28, 2016
Common Stock, $.01 par value	72,182,000 shares

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated ("Ingredion")

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(in millions, except per share amounts)	2016	2015	2016	2015
Net sales before shipping and handling costs	$ 1,533	$ 1,536	$ 2,966	$ 2,946
Less - shipping and handling costs	78	87	151	167
Net sales	1,455	1,449	2,815	2,779
Cost of sales	1,100	1,130	2,121	2,180
Gross profit	355	319	694	599
Operating expenses	144	144	282	276
Other (income) expense, net	—	2	1	1
Restructuring charge	13	—	13	10
Operating income	198	173	398	312
Financing costs-net	19	17	33	30
Income before income taxes	179	156	365	282
Provision for income taxes	59	47	111	87
Net income	120	109	254	195
Less - Net income attributable to non-controlling interests	3	2	6	5
Net income attributable to Ingredion	$ 117	$ 107	$ 248	$ 190
Weighted average common shares outstanding:				
Basic	72.2	71.6	72.1	71.6
Diluted	74.0	72.7	73.8	72.8

Earnings per common share of Ingredion:				
Basic	$ 1.62	$ 1.49	$ 3.44	$ 2.66
Diluted	$ 1.58	$ 1.47	$ 3.36	$ 2.62

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(in millions)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Net income	$ 120	$ 109	$ 254	$ 195
Other comprehensive income (loss):				
Gains (losses) on cash-flow hedges, net of income tax effect of $7, $6, $- and $-, respectively	13	11	2	(3)
Amount of losses on cash-flow hedges reclassified to earnings, net of income tax effect of $4, $3, $7 and $7, respectively	8	6	15	16
Actuarial gain (loss) on pension and other postretirement obligations, settlements and plan amendments, net of income tax effect of $1, $-, $1 and $2, respectively	(4)	—	(4)	7
Losses related to pension and other postretirement obligations reclassified to earnings, net of income tax effect	1	1	1	1
Currency translation adjustment	20	20	59	(126)
Comprehensive income	$ 158	$ 147	$ 327	$ 90
Less: Comprehensive income (loss) attributable to non-controlling interests	3	2	6	5
Comprehensive income attributable to Ingredion	$ 155	$ 145	$ 321	$ 85

See Notes to Condensed Consolidated Financial Statements

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PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Balance Sheets

(in millions, except share and per share amounts)	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 487	$ 434
Short-term investments	20	6
Accounts receivable — net	842	775
Inventories	763	715
Prepaid expenses	26	20
Total current assets	2,138	1,950
Property, plant and equipment - net of accumulated depreciation of $2,784 and $2,642, respectively	2,037	1,989
Goodwill	605	601
Other intangible assets - net of accumulated amortization of $95 and $82, respectively	395	410
Deferred income tax assets	5	7
Other assets	133	117
Total assets	$ 5,313	$ 5,074
Liabilities and equity		
Current liabilities:		
Short-term borrowings	$ 29	$ 19
Accounts payable and accrued liabilities	656	723
Total current liabilities	685	742
Non-current liabilities	180	170
Long-term debt	1,801	1,819
Deferred income tax liabilities	164	139
Share-based payments subject to redemption	22	24
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, 77,810,875 issued at June 30, 2016 and December 31,2015, respectively	1	1

Additional paid-in capital	1,149	1,160
Less - Treasury stock (common stock: 5,674,419 and 6,194,510 shares at June 30, 2016 and December 31,2015, respectively) at cost	(432)	(467)
Accumulated other comprehensive loss	(1,019)	(1,102)
Retained earnings	2,735	2,552
Total Ingredion stockholders' equity	2,434	2,144
Non-controlling interests	27	36
Total equity	2,461	2,180
Total liabilities and equity	$ 5,313	$ 5,074

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						Share-based
(in millions)	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-Controlling Interests	Payments Subject Redemption
Balance, December 31, 2015	$ 1	$ 1,160	$ (467)	$ (1,102)	$ 2,552	$ 36	$ 24
Net income attributable to Ingredion					248		
Net income attributable to non-controlling interests						6	
Dividends declared					(65)	(5)	
Repurchases of common stock		(8)					
Issuance of common stock on exercise of stock options		(9)	25				
Share-based compensation		6	10				(2)
Other comprehensive income (loss)				83		(10)	
Balance, June 30, 2016	$ 1	$ 1,149	$ (432)	$ (1,019)	$ 2,735	$ 27	$ 22

	Total Equity						Share-based
(in millions)	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-Controlling Interests	Payments Subject to Redemption

Balance, December 31, 2014	$ 1	$ 1,164	$ (481)	$ (782)	$ 2,275	$ 30	$ 22
Net income attributable to Ingredion					190		
Net income attributable to non-controlling interests						5	
Dividends declared					(60)	(4)	
Repurchases of common stock		(6)	(29)				
Issuance of common stock on exercise of stock options		(5)	15				
Share-based compensation		9	12				(4)
Other comprehensive income (loss)				(105)			
Balance, June 30, 2015	$ 1	$ 1,162	$ (483)	$ (887)	$ 2,405	$ 31	$ 18

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 Cash Flows

(Unaudited)

	Six Months Ended June 30,	
(in millions)	2016	2015
Cash provided by operating activities:		
Net income	$ 254	$ 195
Non-cash charges to net income:		
Depreciation and amortization	96	96
Charge for fair value mark-up of acquired inventory	—	6
Other	65	50
Changes in working capital:		
Accounts receivable and prepaid expenses	(57)	(11)
Inventories	(36)	(10)
Accounts payable and accrued liabilities	(63)	(76)
Decrease (increase) in margin accounts	13	(7)
Other	(6)	5
Cash provided by operating activities	266	248
Cash used for investing activities:		
Capital expenditures, net of proceeds on disposals	(125)	(128)
Payments for acquisitions, net of cash acquired of $16	—	(332)
Short-term investments	(14)	14
Other	(1)	—
Cash used for investing activities	(140)	(446)
Cash provided by (used for) financing activities:		
Proceeds from borrowings	173	489
Payments on debt	(196)	(104)
Issuance (repurchase) of common stock, net	8	(25)

Dividends paid (including to non-controlling interests)	(69)	(63)
Excess tax benefit on share-based compensation	—	4
Cash provided by (used for) financing activities	(84)	301
Effects of foreign exchange rate changes on cash	11	(26)
Increase in cash and cash equivalents	53	77
Cash and cash equivalents, beginning of period	434	580
Cash and cash equivalents, end of period	$ 487	$ 657

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, 2015.

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, 2015 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, 2016 and 2015, and the financial position of the Company as of June 30, 2016. The results for the interim periods are not necessarily indicative of the results expected for the full years.

2.Recently Adopted and New Accounting Standards

Recently Adopted Accounting Standard

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, a new standard that changes the accounting for certain aspects of share-based payments to employees. The new guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. In addition, cash flows related to excess tax benefits will no longer be separately classified as a financing activity apart from other income tax cash flows. The standard also allows us to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee’s behalf for withheld shares should be presented as a financing activity on our cash flows statement, and provides an accounting policy election to account for forfeitures as they occur. The new standard is effective for us beginning January 1, 2017, with early adoption permitted.

We elected to early adopt the new guidance in the second quarter of fiscal year 2016. The primary impact of adoption was the recognition of excess tax benefits in our provision for income taxes rather than paid-in capital for all periods in fiscal year 2016. The change in tax withholding guidance had no impact to retained earnings as of January 1, 2016, and therefore no cumulative effect was required to be recorded. We have elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

We elected to apply the presentation requirements for cash flows related to excess tax benefits prospectively, which resulted in an increase in cash provided by operating activities and a decrease in cash provided by financing activities for the six months ended June 30, 2016. No changes in presentation will be made for prior years presented. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented in our consolidated cash flows statements since such cash flows have historically been presented as a financing activity.

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 $3 million and $6 million for the three and six months ended June 30, 2016, as well as an

increase of 0.3 million diluted weighted average common shares outstanding for both periods. The adoption of the new standard impacted our previously reported results for the first quarter of 2016 as follows:

(in millions, except share and per share amounts)	Three Months Ended March 31, 2016	
Consolidated Statement of Income:	As reported	As adjusted
Provision for income taxes	$ 56	$ 53
Net income	$ 130	$ 133
Net income attributable to Ingredion	$ 127	$ 130
Basic earnings per common share of Ingredion	$ 1.77	$ 1.81
Diluted earnings per common share of Ingredion	$ 1.73	$ 1.77
Diluted weighted average common shares outstanding	73.3	73.6
Consolidated Statement of Cash Flows:		
Cash provided by operating activities	$ 96	$ 99
Cash provided by financing activities	$ 9	$ 6
Consolidated Balance sheet:		
Additional paid-in capital	$ 1,154	$ 1,151
Retained earnings	$ 2,647	$ 2,650

New Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This Update also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The standard will allow various transition approaches upon adoption. We are assessing the impacts of this new standard.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This Update requires an entity to measure inventory at the lower of cost and net realizable value, removing the consideration of current replacement cost. It is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. We do not expect that the adoption of the guidance in this Update will have a material impact on our Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This Update requires, among other things, that equity investments having readily determinable fair values be measured at fair value with changes recognized in net income rather than other comprehensive income. Equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this Update. The amendments

in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments in this Update are to be applied using a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. We do not expect that the adoption of the guidance in this Update will have a material impact on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes Topic 840, Leases. This Update increases the transparency and comparability of organizations by recognizing lease assets and lease liabilities on the balance sheet for leases longer than 12 months and disclosing key information about leasing arrangements. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed. This Update is effective for annual periods beginning after December 15, 2018,

with early adoption permitted. Adoption will require a modified retrospective transition. We are currently assessing the impact of this Update on our Consolidated Financial Statements.

3.Acquisitions

On August 3, 2015, the Company completed its acquisition of Kerr Concentrates, Inc. (“Kerr”), a privately held producer of natural fruit and vegetable concentrates for $102 million in cash. Kerr serves major food and beverage companies, flavor houses and ingredient producers from its manufacturing locations in Oregon and California. The acquisition of Kerr provides the Company with the opportunity to expand its product portfolio. The Company funded the acquisition with proceeds from borrowings under its revolving credit agreement. The results of Kerr are included in the Company’s consolidated results from August 3, 2015 forward within the North America business segment. The Company has finalized the purchase price allocation. The finalization of purchase accounting during the first quarter of 2016 did not have a significant impact on previously estimated amounts.

Goodwill represents the amount by which the purchase price exceeds the estimated fair value of the net assets acquired. The goodwill related to Kerr is tax deductible due to the structure of this acquisition. The goodwill of $27 million for Kerr results from synergies and other operational benefits expected to be derived from the acquisition.

The following table summarizes the final purchase price allocation for Kerr:

(in millions)	
Working capital (excluding cash)	$ 37
Property, plant and equipment	8
Other assets	1
Identifiable intangible assets	29
Goodwill	27
Total final purchase price	$ 102

The identifiable intangible assets for the Kerr acquisition include items such as customer relationships, trade names, and noncompetition agreements. The fair values of these intangible assets were determined to be Level 3 under the fair value hierarchy. Level 3 inputs are unobservable inputs for an asset or liability. Unobservable inputs are 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 an asset or liability at the measurement date. The following table presents the fair values, valuation techniques, and estimated remaining useful life for these acquired intangible assets (dollars in millions):

	Fair Value		Valuation Technique	Estimated Useful Life
Customer Relationships	$	24	Multi-period excess earnings method	15 years
Trade Names	$	4	Relief-from-royalty method	11 years
Noncompetition Agreements	$	1	Income Approach	3 years

The fair value of customer relationships, trade names and noncompetition agreements were determined through the valuation techniques described above using various judgmental assumptions such as discount rates, royalty rates, and customer attrition rates, as applicable. The fair values of property, plant and equipment associated with the Kerr acquisition were determined to be Level 3 under the fair value hierarchy. Property, plant and equipment values were estimated using either the cost or market approach.

The Company incurred $1 million of pre-tax acquisition and integration costs for the six months ended June 30, 2016, associated with its recent acquisitions. In 2015, the Company incurred $4 million and $8 million of pre-tax acquisition and integration costs for the three and six months ended June 30, 2015, respectively, associated with the acquisition of Penford Corporation ("Penford").

4.Impairment and Restructuring Charges

During the second quarter of 2016, the Company recorded $13 million of restructuring charges consisting of $8 million of employee-related severance and other costs due to the execution of global IT outsourcing contracts, $3 million of employee-related severance costs associated with the Company's optimization initiative in South America and $2

million of costs attributable to the 2015 Port Colborne plant sale. The Company expects to incur additional costs of approximately $6 million in the second half of 2016 related to the IT outsourcing project.

On September 8, 2015, the Company announced that it plans to consolidate its manufacturing network in Brazil. Plants in Trombudo Central and Conchal will be closed and production will be moved to plants in Balsa Nova and Mogi Guaçu, respectively. The consolidation should be complete by the end of 2016.

In the first quarter of 2015, the Company recorded a pre-tax restructuring charge of $10 million for employee severance-related costs associated with the Penford acquisition.

A summary of the Company's severance accrual at June 30, 2016 is as follows (in millions):

Balance in severance accrual at December 31, 2015	$ 10
Restructuring charge for employee severance costs:	
IT transformation	7
South America employee-related severance	3
Sub-total	$ 20
Payments made to terminated employees	(5)
Balance in severance accrual at June 30, 2016	$ 15

The severance accrual is expected to be paid within the next twelve months.

5.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, Middle East and Africa ("EMEA"). Its North America segment includes businesses in the United States, Canada and Mexico. The Company's South America segment includes businesses in Brazil, Colombia, Ecuador and the Southern Cone of South America, which includes Argentina, Chile, Peru and Uruguay. Its Asia Pacific segment includes businesses in South 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, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net sales to unaffiliated customers:				
North America	$ 895	$ 869	$ 1,735	$ 1,623
South America	240	250	455	508
Asia Pacific	180	192	349	379
EMEA	140	138	276	269
Total	$ 1,455	$ 1,449	$ 2,815	$ 2,779
Operating income:				
North America	$ 160	$ 127	$ 309	$ 229
South America	14	20	32	45
Asia Pacific	30	28	58	54
EMEA	29	23	55	45
Corporate	(22)	(18)	(42)	(36)
Subtotal	211	180	412	337
Restructuring charges	(13)	—	(13)	(10)
Acquisition / integration costs	—	(4)	(1)	(8)
Charge for fair value markup of acquired inventory	—	(3)	—	(7)
Total	$ 198	$ 173	$ 398	$ 312

(in millions)	At Jun 30, 2016	At Dec. 31, 2015
Total assets		
North America	$ 3,254	$ 3,163
South America	793	714
Asia Pacific	760	716
EMEA	506	481
Total	$ 5,313	$ 5,074

6.Financial Instruments, Derivatives and Hedging Activities

The Company is exposed to market risk stemming from changes in commodity prices (primarily 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 twenty-four 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 natural gas swaps to hedge a portion of its natural gas usage in North America. These derivative financial instruments limit the impact that volatility resulting from fluctuations in market prices will have on corn and natural gas purchases and have been designated as cash-flow hedges. The Company also enters into futures contracts to hedge price risk associated with fluctuations in the market price of ethanol. Unrealized gains and losses associated with marking the commodity hedging contracts to market (fair value) 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 same line item affected by the hedged transaction and in the same period or periods during which the hedged transaction affects 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, 2016, AOCI included $6 million of losses, net of tax of $4 million, pertaining to commodities-related derivative instruments designated as cash-flow hedges. At December 31, 2015, AOCI included $21 million of losses, net of tax of $10 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 interest rate swaps and Treasury Lock agreements ("T-Locks"). The Company has interest rate swap agreements that effectively convert the interest rates on its 6.0 percent $200 million senior notes due April 15, 2017, its 1.8 percent $300 million senior notes due September 25, 2017 and on $200 million of its $400 million 4.625 percent senior notes due November 1, 2020, to variable rates. These swap agreements call for the Company to receive interest at the fixed coupon rate of the respective notes 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 obligations 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 (that is, 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, 2016 and December 31, 2015 was $16 million and $7 million, respectively, and is reflected in the Condensed Consolidated Balance Sheets within Other assets, with an offsetting amount recorded in Long-term debt to adjust the carrying amount

of the hedged debt obligations. The Company did not have any T-locks outstanding at June 30, 2016 or December 31, 2015.

At June 30, 2016, AOCI included $4 million of losses (net of income taxes of $2 million), related to settled T-Locks. At December 31, 2015, AOCI included $5 million of losses (net of income taxes of $2 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, including operations in many emerging markets, it is exposed to fluctuations in foreign currency exchange rates. As a result, the Company has exposure to translational foreign exchange risk when the results of its foreign operations are translated to US dollars and to transactional foreign exchange risk when transactions not denominated in the functional currency 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. At June 30, 2016, the Company had foreign currency forward sales contracts with an aggregate notional amount of $379 million and foreign currency forward purchase contracts with an aggregate notional amount of $56 million that hedged transactional exposures. At December 31, 2015, the Company had foreign currency forward sales contracts with an aggregate notional amount of $606 million and foreign currency forward purchase contracts with an aggregate notional amount of $287 million that hedged transactional exposures.

The Company also has foreign currency derivative instruments that hedge certain foreign currency transactional exposures and are designated as cash-flow hedges. The amount included in AOCI relating to these hedges at both June 30, 2016 and December 31, 2015 was not significant.

The fair value and balance sheet location of the Company's derivative instruments, presented gross in 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, 2016	Fair Value At December 31, 2015	Balance Sheet Location	Fair Value At June 30, 2016	Fair Value At December 31, 2015
Commodity and foreign currency contracts	Accounts receivable-net	$ 9	$ 18	Accounts payable and accrued liabilities	$ 44	$ 38
	Other assets	23	14	Non-current liabilities	6	4

Commodity, foreign currency, and interest rate contracts				
Total	$ 32	$ 32	$ 50	$ 42

At June 30, 2016, the Company had outstanding futures and option contracts that hedged the forecasted purchase of approximately 83 million bushels of corn and 48 million pounds of soybean oil. The Company is unable to directly hedge price risk related to co-product sales; however, it occasionally enters into hedges of soybean oil (a competing product to corn oil) in order to mitigate the price risk of corn oil sales. The Company also had outstanding swap and option contracts that hedged the forecasted purchase of approximately 12 million mmbtu's of natural gas at June 30, 2016. Additionally at June 30, 2016, the Company had outstanding ethanol futures contracts that hedged the forecasted sale of approximately 11 million gallons of ethanol.

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		Location of Gains (Losses) Reclassified from AOCI into Income	Amount of Gains (Losses) Reclassified from AOCI into Income	
	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015		Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
Commodity and foreign currency contracts	$ 20	$ 17	Gross profit	$ (11)	$ (8)
Interest rate contracts	—	—	Financing costs, net	(1)	(1)
Total	$ 20	$ 17		$ (12)	$ (9)

Derivatives in Cash-Flow Hedging Relationships	Amount of Gains (Losses) Recognized in OCI		Location of Gains (Losses) Reclassified from AOCI into Income	Amount of Gains (Losses) Reclassified from AOCI into Income	
	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015		Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Commodity and foreign currency contracts	$ 2	$ (3)	Gross profit	$ (21)	$ (21)
Interest rate contracts	—	—	Financing costs, net	(1)	(2)
Total	$ 2	$ (3)		$ (22)	$ (23)

At June 30, 2016, AOCI included $6 million of losses (net of income taxes of $4 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 costs. The Company also has $1 million of losses on settled T-Locks (net of income taxes of $1 million) recorded in AOCI at June 30, 2016, which are expected to be reclassified into earnings during the next twelve months. Additionally, at June 30, 2016, AOCI included an insignificant amount of losses related to foreign currency hedges that 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:

	As of June 30, 2016				As of December 31, 2015			
(in millions)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Available for sale securities	$ 6	$ 6	$ —	$ —	$ 6	$ 6	$ —	$ —
Derivative assets	32	1	31	—	32	2	30	—
Derivative liabilities	50	19	31	—	42	21	21	—
Long-term debt	1,925	—	1,925	—	1,912	—	1,912	—

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 are based on 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 are recognized at fair value. Foreign currency forward contracts, swaps and options are also 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, 2016, the carrying value and fair value of the Company's long-term debt were $1.80 billion and $1.93 billion, respectively.

7.Share-Based Compensation

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 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 329 thousand shares and 336 thousand shares of the Company's common stock during the six months ended June 30, 2016 and 2015, 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,	
	2016	2015
Expected life (in years)	5.5	5.5
Risk-free interest rate	1.36 %	1.36 %
Expected volatility	23.40 %	25.19 %
Expected dividend yield	1.80 %	2.04 %

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 to the expected life of the options. Expected volatility is based on historical volatilities of the Company's common stock. Dividend yields are based on current dividend payments.

Stock option activity for the six months ended June 30, 2016 was as follows:

(dollars and options in thousands, except per share amounts)	Number of Options	Weighted Average Exercise Price per Share	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2015	2,651	$ 52.93		
Granted	329	99.96		
Exercised	(374)	43.04		
Cancelled	(35)	50.81		
Outstanding at June 30, 2016	2,571	$ 60.42	6.28	$ 177
Exercisable at June 30, 2016	1,811	$ 50.68	5.27	143

For the six months ended June 30, 2016, cash received from the exercise of stock options was $16 million. At June 30, 2016, the total remaining unrecognized compensation cost related to stock options approximated $9 million, which will be amortized over a weighted-average period of approximately 1.4 years.

Additional information pertaining to stock option activity is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share)	2016	2015	2016	2015
Weighted average grant date fair value of stock options granted (per share)	$ —	$ —	$ 18.73	$ 16.04
Total intrinsic value of stock options exercised	$ 11,469	$ 7,464	$ 24,134	$ 11,204

Restricted Stock Units:

The Company has granted shares of restricted stock units ("RSUs") to certain key employees. The RSUs are subject to cliff vesting, generally after three years provided the employee remains in the service of the Company. The fair value of the RSUs is determined based upon the number of shares granted and the quoted market price of the Company's common stock at the date of the grant.

The following table summarizes RSU activity for the six months ended June 30, 2016:

(shares in thousands)	Number of RSUs	Weighted Average Fair Value per Share
Non-vested at December 31, 2015	439	$ 69.96
Granted	145	99.99
Vested	(124)	65.63
Cancelled	(12)	77.33
Non-vested at June 30, 2016	448	$ 80.69

At June 30, 2016, the total remaining unrecognized compensation cost related to RSUs was $21 million, which will be amortized over a weighted-average period of approximately 1.9 years.

Performance Shares:

The Company has a long-term incentive plan for senior management in the form of performance shares. The ultimate payments for performance shares awarded and eventually paid will be based solely on the Company's stock performance as compared to the stock performance of a peer group. The final payments will be calculated at the end of the three year period and are subject to approval by management and the Compensation Committee. Compensation expense is based on the fair value of the performance shares at the grant date, established using a Monte Carlo simulation model. The total compensation expense for these awards is amortized over a three-year graded vesting schedule.

The Company awarded 47 thousand, 58 thousand, and 45 thousand share units in 2015, 2014 and 2013, respectively. The number of shares that ultimately vest can range from zero to 200 percent of the awarded grant depending on the Company's stock performance as compared to the stock performance of the peer group. The weighted average fair value of the shares granted during 2015, 2014 and 2013 was $77.54, $52.03 and $67.19, respectively. In the first half of 2016, the Company awarded 44 thousand share units at a weighted average fair value of $131.34.

The 2013 performance share award vested in the first half of 2016, achieving a 200 percent pay out of the grant, or 90 thousand total vested shares. There were no share cancellations during the first half of 2016.

At June 30, 2016, the unrecognized compensation cost related to these awards was $5 million, which will be amortized over the remaining requisite service periods of 2.1 years.

The following table summarizes the components of the Company’s share-based compensation expense:

(in millions)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Stock options:				
Pre-tax compensation expense	$ 2.2	$ 1.6	$ 4.3	$ 3.4
Income tax (benefit)	(0.8)	(0.6)	(1.6)	(1.3)
Stock option expense, net of income taxes	1.4	1.0	2.7	2.1
RSUs:				
Pre-tax compensation expense	3.2	2.3	6.1	4.3
Income tax (benefit)	(1.2)	(0.9)	(2.2)	(1.6)
RSUs, net of income taxes	2.0	1.4	3.9	2.7
Performance shares and other share-based awards:				
Pre-tax compensation expense	1.7	1.3	3.4	2.6
Income tax (benefit)	(0.6)	(0.4)	(1.3)	(0.9)
Performance shares and other share-based compensation expense, net of income taxes	1.1	0.9	2.1	1.7
Total share-based compensation:				
Pre-tax compensation expense	7.1	5.2	13.8	10.3
Income tax (benefit)	(2.6)	(1.9)	(5.1)	(3.8)
Total share-based compensation expense, net of income taxes	$ 4.5	$ 3.3	$ 8.7	$ 6.5

8.Net Periodic Pension and Postretirement Benefit Costs

For detailed information about the Company’s pension and postretirement benefit plans, please refer to Note 10 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, 2015.

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)	2016	2015	2016	2015	2016	2015	2016	2015
Service cost	$ 1.6	$ 2.0	$ 0.8	$ 1.1	$ 3.1	$ 3.8	$ 1.6	$ 2.3
Interest cost	3.4	3.7	2.7	3.0	6.8	6.9	5.3	6.0
Expected return on plan assets	(5.0)	(6.3)	(2.7)	(3.4)	(10.0)	(11.9)	(5.4)	(6.8)
Amortization of initial net obligation	—	—	0.1	—	—	—	0.2	—
Amortization of actuarial loss	0.2	0.2	0.4	0.5	0.4	0.4	0.8	1.1
Amortization of transition obligation	—	—	—	0.1	—	—	—	0.1
Amortization of prior service credit	(0.1)	—	—	—	(0.1)	—	—	(0.1)
Settlement loss	—	—	1.1	—	—	—	1.5	—
Net periodic benefit cost	$ 0.1	$ (0.4)	$ 2.4	$ 1.3	$ 0.2	$ (0.8)	$ 4.0	$ 2.6

The Company currently anticipates that it will make approximately $5 million in cash contributions to its pension plans in 2016, consisting of $4 million to its non-US pension plans and $1 million to its US pension plans. For the six months ended June 30, 2016, cash contributions of approximately $2 million were made to the non-US plans and less than $1 million to the US plans.

In April 2016, the Company performed a pension remeasurement for one of its pension plans in Canada as a result of lump sum settlement payments made related to the Port Colborne plant sale. This plan settlement resulted in a reduction in the funded status of the Plan by $5 million. The Company recorded a pension charge of $1 million as a result of the settlement.

During the first quarter of 2015, the Company amended one of its pension plans in Canada to eliminate future benefit accruals for the plan effective April 30, 2015. This plan curtailment resulted in an improvement in the funded status of the plan by approximately $9 million. The impact of this plan curtailment on net periodic benefit cost for the first half of 2015 was not significant.

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

(in millions)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Service cost	$ 0.2	$ 0.2	$ 0.4	$ 0.4
Interest cost	0.7	0.8	1.4	1.5
Amortization of actuarial loss	—	0.1	—	0.3
Amortization of prior service credit	(0.8)	(0.5)	(1.6)	(1.1)
Net periodic benefit cost	$ 0.1	$ 0.6	$ 0.2	$ 1.1

9.Earnings per Common Share

The following table provides the computation of basic and diluted earnings per common share ("EPS") for the periods presented.

(in millions, except per share amounts)	Three Months Ended June 30, 2016 Net Income Available to Ingredion (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount	Three Months Ended June 30, 2015 Net Income Available to Ingredion (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Basic EPS	$ 117.2	72.2	$ 1.62	$ 106.7	71.6	$ 1.49
Effect of Dilutive Securities:						
Incremental shares from assumed exercise of dilutive stock options and						

vesting of dilutive RSUs and other awards		1.8			1.1	
Diluted EPS	$ 117.2	74.0	$ 1.58	$ 106.7	72.7	$ 1.47

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
(in millions, except per share amounts)	Net Income Available to Ingredion (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount	Net Income Available to Ingredion (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Basic EPS	$ 247.7	72.1	$ 3.44	$ 190.3	71.6	$ 2.66
Effect of Dilutive Securities:						
Incremental shares from assumed exercise of dilutive stock options and vesting of dilutive RSUs and other awards		1.7			1.2	
Diluted EPS	$ 247.7	73.8	$ 3.36	$ 190.3	72.8	$ 2.62

For the second quarter and first half of 2016, approximately 0.1 million and 0.3 million share based awards of common stock were excluded from the calculation of diluted EPS as the impact of their inclusion would have been anti-dilutive. For both the second quarter and first half of 2015, approximately 0.3 million share based awards of common stock were excluded from the calculation of diluted EPS as the impact of their inclusion would have been anti-dilutive.

10.Inventories

Inventories are summarized as follows:

(in millions)	At June 30, 2016	At December 31, 2015
Finished and in process	$ 447	$ 434
Raw materials	266	229
Manufacturing supplies and other	50	52
Total inventories	$ 763	$ 715

11.Debt

The Company's long-term debt at June 30, 2016 includes $350 million of borrowings under a Term Loan Credit Agreement that expires January 10, 2017 and $200 million of 6 percent Senior Notes that mature on April 15, 2017. These borrowings are included in long-term debt as the Company has the ability and intent to refinance them on a long-term basis prior to the maturity date.

12.Accumulated Other Comprehensive Loss

A summary of accumulated other comprehensive loss for the six months ended June 30, 2016 and 2015 is provided below: