BALL CORP
Form 10-K
February 22, 2013
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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, 2012

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 1-7349

Ball Corporation

State of Indiana	**35-0160610**
(State of other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

10 Longs Peak Drive, P.O. Box 5000
Broomfield, Colorado **80021-2510**
(Address of registrant s principal executive office) (Zip Code)

Registrant s telephone number, including area code: **(303) 469-3131**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, without 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 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. 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 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of voting stock held by non-affiliates of the registrant was $6.4 billion based upon the closing market price and common shares outstanding as of July 1, 2012.

Number of shares and rights outstanding as of the latest practicable date.

Class	**Outstanding at February 15, 2013**
Common Stock, without par value	149,437,900 shares
Preferred Stock Purchase Right	74,718,950 rights

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy statement to be filed with the Commission within 120 days after December 31, 2012, to the extent indicated in Part III.

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Ball Corporation and Subsidiaries

ANNUAL REPORT ON FORM 10-K

For the year ended December 31, 2012

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PART I

Item 1. Business

Ball Corporation and its consolidated subsidiaries (Ball, we, the company or our) is one of the world s leading suppliers of metal packaging to the beverage, food, personal care and household products industries. The company was organized in 1880 and incorporated in the state of Indiana, United States of America (U.S.), in 1922. Our packaging products are produced for a variety of end uses and are manufactured in facilities around the world. We also provide aerospace and other technologies and services to governmental and commercial customers within our aerospace and technologies segment. In 2012, our total consolidated net sales were $8.7 billion. Our packaging businesses were responsible for 90 percent of our net sales, with the remaining 10 percent contributed by our aerospace business.

Our largest product lines are aluminum and steel beverage containers. We also produce steel food containers and steel and aluminum containers for beverages, food, personal care and household products, as well as steel paint cans, decorative steel tins and aluminum slugs.

We sell our packaging products mainly to major beverage, food, personal care and household products companies with which we have developed long-term customer relationships. This is evidenced by our high customer retention and our large number of long-term supply contracts. While we have a diversified customer base, we sell a majority of our packaging products to relatively few major companies in North America, Europe, the People s Republic of China (PRC), Brazil, Mexico and Argentina, as do our equity joint ventures in the U.S. and Vietnam. Our significant customers include: Anheuser-Busch InBev n.v./s.a., Heineken N.V., MillerCoors LLC, PepsiCo Inc. and its affiliated bottlers, SABMiller plc, The Coca-Cola Company and its affiliated bottlers, and Unilever N.V.

Our aerospace business is a leader in the design, development and manufacture of innovative aerospace systems for civil, commercial and national security aerospace markets. It produces spacecraft, instruments and sensors, radio frequency systems and components, data exploitation solutions and a variety of advanced aerospace technologies and products that enable deep space missions.

We are headquartered in Broomfield, Colorado. Our stock is traded on the New York Stock Exchange under the ticker symbol BLL.

Our Strategy

Our overall business strategy is defined by our Drive for 10 vision, which at its highest level is a mindset around perfection, with a greater sense of urgency around our future success. Our Drive for 10 vision encompasses five strategic levers that are key to growing our businesses and achieving long-term success. These five levers are:

- Maximizing value in our existing businesses

- Expanding into new products and capabilities
- Aligning ourselves with the right customers and markets
- Broadening our geographic reach and
- Leveraging our know-how and technological expertise to provide a competitive advantage

We also maintain a clear and disciplined financial strategy focused on improving shareholder returns through:

- Delivering earnings per share growth of 10 percent to 15 percent per annum over the long-term
- Focusing on free cash flow generation
- Increasing Economic Value Added (EVA®) dollars

The cash generated by our businesses is used primarily: (1) to finance the company s operations, (2) to fund strategic capital investments, (3) to fund stock buy-back programs and dividend payments and (4) to service the company s debt. We will, when we believe it will benefit the company and our shareholders, make strategic acquisitions, enter into joint ventures or divest parts of our company. The compensation of many of our employees is tied directly to the company s performance through our EVA® incentive programs.

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Our Reporting Segments

Ball Corporation reports its financial performance in four reportable segments: (1) metal beverage packaging, Americas and Asia; (2) metal beverage packaging, Europe; (3) metal food and household products packaging, Americas; and (4) aerospace and technologies. Ball also has investments in the U.S. and Vietnam which are accounted for using the equity method of accounting and, accordingly, those results are not included in segment sales or earnings. Financial information related to each of our segments is included in Note 2 to the consolidated financial statements within Item 8 of this Annual Report on Form 10-K (annual report).

Metal Beverage Packaging, Americas and Asia, Segment

Metal beverage packaging, Americas and Asia, is Ball s largest segment, accounting for 52 percent of consolidated net sales in 2012. Metal beverage containers are primarily sold under multi-year supply contracts to fillers of carbonated soft drinks, beer, energy drinks and other beverages.

Americas

Metal beverage containers and ends are produced at 17 manufacturing facilities in the U.S., one in Canada and four in Brazil. Ends are produced within four of the U.S. facilities, including two facilities that manufacture only ends, and one facility in Brazil. Additionally, Rocky Mountain Metal Container, LLC, a 50-percent investment owned by Ball and MillerCoors LLC, operates metal beverage container and end manufacturing facilities in Golden, Colorado.

The North American metal beverage container manufacturing industry is relatively mature, and industry volumes for certain types of containers have declined over the past several years. Where growth or contractions are projected in certain markets or for certain products, Ball undertakes selected capacity increases or decreases in its existing facilities to meet market demand, which may include both permanent and temporary capacity realignment. Late in the second quarter of 2012, we were notified of a reduction in standard 12-ounce container requirements for a Beverage, Americas, customer, starting in January 2013. A meaningful portion of this reduction in volume will be offset with growing demand for specialty container volumes from new and existing customers. We expanded our Alumi-Tek® bottle production to our Golden, Colorado, facility, and expanded our specialty container capabilities in several of our facilities.

In August 2010, Ball acquired an additional 10.1 percent economic interest in its Brazilian metal beverage packaging joint venture, Latapack-Ball Embalagens Ltda. (Latapack-Ball), through a transaction with the joint venture partner, Latapack S.A. This transaction increased the company s overall economic interest in the joint venture to 60.1 percent and resulted in Ball becoming the primary beneficiary of the entity and, consequently, consolidating the joint venture. In February 2011, we announced plans to construct a new metal beverage container manufacturing facility in northeast Brazil, which is one of the fastest growing regions of the country. The new facility is located in Alagoinhas, Bahia, and began production in the first quarter of 2012 with the output from the first line contracted under a long-term agreement. In December 2012, we announced the construction of a second can line in Alagoinhas, which is expected to begin production in the second half of 2013.

According to publicly available information and company estimates, the combined Americas metal beverage container industry represents approximately 116 billion units. Five companies manufacture substantially all of the metal beverage containers in the U.S. and Canada and three companies manufacture substantially all such containers in Brazil. Two of these producers and three other independent producers also manufacture metal beverage containers in Mexico. Ball produced approximately 43 billion recyclable metal beverage containers in the Americas in 2012 about 37 percent of the aggregate production. Sales volumes of metal beverage containers in North America tend to be highest during the period from April through September while in Brazil, sales volumes tend to be highest from September through December. All of the beverage containers produced by Ball in the U.S., Canada and Brazil are made of aluminum, as are almost all beverage containers produced by our competitors in those countries. In 2012 we were able to recover substantially all aluminum-related cost increases levied by sheet producers through either financial or contractual means. In the metal beverage packaging, Americas, segment, six aluminum suppliers provide virtually all of our requirements.

Metal beverage containers are sold based on price, quality, service, innovation and sustainability in a highly competitive market, which is relatively capital intensive and is characterized by facilities that run more or less continuously in order to operate profitably. In addition, the metal beverage container competes aggressively with other packaging materials. The glass bottle has maintained a meaningful position in the packaged beer industry, while the polyethylene terephthalate (PET) container has grown significantly in the carbonated soft drink and water industries over the past quarter century.

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We believe we have limited our exposure related to changes in the costs of aluminum ingot as a result of the inclusion of provisions in most metal beverage container sales contracts to pass through aluminum ingot price changes, as well as through the use of derivative instruments.

Asia

The metal beverage container market in the PRC is approximately 19 billion containers, of which Ball s operations represented an estimated 28 percent in 2012. Our percentage of the industry makes us one of the largest manufacturers of metal beverage containers in the PRC, and we plan to prudently add capacity where necessary to continue to supply this growing market. Eight other manufacturers account for the remainder of the production. Our operations include the manufacture of aluminum containers and ends in five facilities in the PRC. We also manufacture and sell high-density plastic containers in two PRC facilities primarily servicing the motor oil industry.

In October 2011, we acquired our partners 60 percent interest in Qingdao M.C. Packaging Ltd. (QMCP), a joint venture metal beverage container facility in Qingdao, PRC. The facility was relocated and expanded in Qingdao, PRC, and began production in the second quarter of 2012. Additionally, in March 2011, we entered into a joint venture agreement with Thai Beverage Can Limited to construct a beverage container manufacturing facility in Vietnam that began production in the first quarter of 2012.

In June 2010, we acquired Guangdong Jianlibao Group Co., Ltd s 65 percent interest in a joint venture metal beverage container and end facility (JFP) in Sanshui (Foshan), PRC. Ball had owned 35 percent of the joint venture facility since 1992.

We believe we have limited our exposure related to changes in the costs of aluminum ingot as a result of the inclusion of provisions in most metal beverage container sales contracts to pass through aluminum ingot price changes, as well as through the use of derivative instruments.

Metal Beverage Packaging, Europe, Segment

The European metal beverage container market, excluding Russia, is approximately 54 billion containers, and we are the second largest producer with an estimated 32 percent of European shipments. The European market is highly regional in terms of sales growth rates and packaging mix.

During the third quarter of 2012, we acquired Tubettificio Europeo S.p.A. (Tubettificio), a small regional manufacturer of metal beverage packaging containers in Italy and consolidated it into other existing facilities. In January 2011, Ball completed the acquisition of Aerocan S.A.S. (Aerocan), a leading European supplier of extruded aluminum aerosol containers, for 221.7 million ($295.2 million) in cash and assumed debt, which was net of $26.2 million of cash acquired. The acquisition of Aerocan has enabled Ball to expand into a new product category that is growing faster than other parts of our business, while aligning with a new customer base at returns that meet or exceed the company s cost of capital. See Note 3 to the consolidated financial statements within Item 8 of this annual report for further details.

The metal beverage packaging, Europe, segment, which accounted for 22 percent of Ball s consolidated net sales in 2012, supplies two-piece metal beverage containers and ends for producers of carbonated soft drinks, beer, energy drinks and other beverages, as well as extruded aluminum aerosol containers and aluminum slugs. The European operations consist of 16 facilities 10 beverage container facilities, three extruded aluminum aerosol facilities, two beverage end facilities and one aluminum slug facility of which four are located in Germany, four in the United Kingdom, four in France and one each in the Netherlands, Poland, Serbia and the Czech Republic. In addition, Ball is currently renting additional space on the premises of a supplier in Haslach, Germany, in order to produce the Ball Resealable End (BRE). The European beverage facilities produced approximately 17 billion metal beverage containers in 2012, with approximately 57 percent of those being produced from aluminum and 43 percent from steel. Six of the beverage container facilities use aluminum and four use steel. The European aluminum aerosol facilities produced approximately 725 million aluminum aerosol containers in 2012.

Beginning in the first quarter of 2013, the European extruded aluminum packaging operations will be reflected in the metal food and household products packaging, Americas, segment.

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Sales volumes of metal beverage containers in Europe tend to be highest during the period from May through August with a smaller increase in demand leading up to the winter holiday season in the United Kingdom. Much like other parts of the world, the metal beverage container competes aggressively with other packaging materials used by the European beer and carbonated soft drink industries. The glass bottle is heavily utilized in the packaged beer industry, while the PET container is utilized in the carbonated soft drink, beer, juice and water industries.

European raw material supply contracts are generally for a period of one year, although Ball has negotiated some longer term agreements. In Europe three steel suppliers and two aluminum suppliers provide 94 percent of our requirements. Aluminum is traded primarily in U.S. dollars, while the functional currencies of the European operations are non-U.S. dollars. The company generally tries to minimize the resulting exchange rate risk using derivative and supply contracts in local currencies. In addition, purchase and sales contracts generally include fixed price, floating and pass-through pricing arrangements.

Metal Food and Household Products Packaging, Americas, Segment

The metal food and household products packaging, Americas, segment, accounted for 16 percent of consolidated net sales in 2012. Ball produces two-piece and three-piece steel food containers and ends for packaging vegetables, fruit, soups, meat, seafood, nutritional products, pet food and other products. The segment also manufactures and sells aerosol, paint and general line containers, as well as decorative specialty containers, extruded aluminum aerosol containers and aluminum slugs. There are a total of 14 facilities in the U.S., one in Canada and one in Mexico, that produce these products. In addition, the company manufactures and sells steel aerosol containers in two facilities in Argentina.

Sales volumes of metal food containers in North America tend to be highest from May through October as a result of seasonal fruit, vegetable and salmon packs. We estimate our 2012 shipments of approximately 5 billion steel food containers to be approximately 17 percent of total U.S. and Canadian metal food container shipments. We estimate our aerosol business accounts for approximately 39 percent of total annual U.S. and Canadian steel aerosol shipments. In the U.S. and Canada, we are the leading supplier of aluminum slugs used in the production of extruded aluminum aerosol containers and estimate our percentage of the total industry shipments to be approximately 87 percent.

In December 2012, the company acquired Envases del Plata S.A. de C.V. (Envases), a leading producer of extruded aluminum aerosol packaging in Mexico with a single manufacturing facility in San Luis Potosí, for cash of $55.9 million, net of cash acquired, and assumed debt of $72.7 million. The facility produces extruded aluminum aerosol containers for personal care and household products for customers in North, Central and South America and employs approximately 150 people. The acquisition is expected to provide a platform to grow the company s existing North American extruded aluminum business, providing a new end market for the company s products, including the company s ReAlTM technology that enables the use of recycled material and meaningful lightweighting in the manufacture of extruded aluminum packaging.

Competitors in the metal food container product line include two national and a small number of regional suppliers and self manufacturers. Several producers in Mexico also manufacture steel food containers. Competition in the U.S. steel aerosol container market primarily includes three other national suppliers. Steel containers also compete with other packaging materials in the food and household products industry including glass, aluminum, plastic, paper and pouches. As a result, profitability for this product line is dependent on price, cost reduction, service and quality. In North America, three steel suppliers provide nearly 65 percent of our tinplate steel. We believe we have limited our exposure related to changes in the costs of steel tinplate and aluminum as a result of the inclusion of provisions in many sales contracts to pass through steel and aluminum cost changes and the existence of certain other steel container sales contracts that incorporate annually negotiated metal costs. In 2012, we were able to pass through the majority of steel cost increases levied by producers.

Cost containment is crucial to maintaining profitability in the food and aerosol container manufacturing industries and Ball is focused on doing so. Toward that end, in the second quarter of 2011, Ball closed its metal food container manufacturing facility in Richmond, British Columbia.

In February 2013, Ball announced the closure of its metal food and aerosol container manufacturing facility in Elgin, Illinois. The facility, which produces aerosol and specialty steel cans as well as flat steel sheet used by other Ball food and household products packaging facilities, will cease production in the fourth quarter of 2013, and its production capacity will be consolidated into other Ball facilities. In connection with the closure, the company will record an estimated after-tax charge of approximately $21 million for employee severance, pension and other employee benefits costs, the write down to net realizable value of certain fixed assets and other closure costs.

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Aerospace and Technologies Segment

Ball s aerospace and technologies segment, which accounted for 10 percent of consolidated net sales in 2012, includes national defense hardware; antenna and video component technologies; civil and operational space hardware; and systems engineering services. The segment develops spacecraft, sensors and instruments, radio frequency systems and other advanced technologies for the civil, commercial and national security aerospace markets. The majority of the aerospace and technologies business involves work under contracts, generally from one to five years in duration, as a prime contractor or subcontractor for the U.S. Department of Defense (DoD), the National Aeronautics and Space Administration (NASA) and other U.S. government agencies. The company competes against both large and small prime contractors and subcontractors for these contracts. Contracts funded by the various agencies of the federal government represented 90 percent of segment sales in 2012.

Intense competition and long operating cycles are key characteristics of both the company s business and the aerospace and defense industry. It is common in the aerospace and defense industry for work on major programs to be shared among a number of companies. A company competing to be a prime contractor may, upon ultimate award of the contract to another competitor, become a subcontractor for the ultimate prime contracting company. It is not unusual to compete for a contract award with a peer company and, simultaneously, perform as a supplier to or a customer of that same competitor on other contracts, or vice versa.

Geopolitical events, and shifting executive and legislative branch priorities have resulted in an increase in opportunities over the past decade in areas matching our aerospace and technologies segment s core capabilities in space hardware. The businesses include hardware, software and services sold primarily to U.S. customers, with emphasis on space science and exploration, environmental and earth sciences, and defense and intelligence applications. Major activities frequently involve the design, manufacture and testing of satellites, remote sensors and ground station control hardware and software, as well as related services such as launch vehicle integration and satellite operations. Uncertainties in the federal government budgeting process could delay the funding, or even result in cancellation of certain programs currently in our reported backlog.

Other hardware activities include target identification, warning and attitude control systems and components; cryogenic systems for reactant storage, and associated sensor cooling devices; star trackers, which are general-purpose stellar attitude sensors; and fast-steering mirrors. Additionally, the aerospace and technologies segment provides diversified technical services and products to government agencies, prime contractors and commercial organizations for a broad range of information warfare, electronic warfare, avionics, intelligence, training and space systems needs.

Backlog in the aerospace and technologies segment was $1.0 billion and $897 million at December 31, 2012 and 2011, respectively, and consisted of the aggregate contract value of firm orders, excluding amounts previously recognized as revenue. The 2012 backlog includes $601 million expected to be recognized in revenues during 2013, with the remainder expected to be recognized in revenues thereafter. Unfunded amounts included in backlog for certain firm government orders, which are subject to annual funding, were $573 million and $470 million at December 31, 2012 and 2011, respectively. Year-over-year comparisons of backlog are not necessarily indicative of the trend of future operations due to the nature of varying delivery and milestone schedules on contracts and funding of programs.

Discontinued Operations Plastic Packaging, Americas

In August 2010, we completed the sale of our plastics packaging, Americas, business to Amcor Limited and received gross proceeds of $258.7 million. This amount included $15 million of contingent consideration recognized at closing and was net of post-closing adjustments of $21.3 million. The sale of our plastics packaging business included five U.S. facilities that manufactured PET bottles and preforms and polypropylene bottles, as well as associated customer contracts and other related assets and liabilities.

Patents

In the opinion of the company s management, none of our active patents or groups of patents is material to the successful operation of our business as a whole. We manage our intellectual property portfolio to obtain the durations necessary to achieve our business objectives.

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Research and Development

Research and development (R&D) efforts in our packaging segments are primarily directed toward packaging innovation, specifically the development of new features, sizes, shapes and types of containers, as well as new uses for existing containers. Other additional R&D efforts in these segments seek to improve manufacturing efficiencies and the overall sustainability of our products. Our packaging R&D activities are primarily conducted in the Ball Technology & Innovation Center (BTIC) located in Westminster, Colorado, and in a technical center located in Bonn, Germany.

In our aerospace business, we continue to focus our R&D activities on the design, development and manufacture of innovative aerospace products and systems. This includes the production of spacecraft, instruments and sensors, radio frequency and system components, data exploitation solutions and a variety of advanced aerospace technologies and products that enable deep space missions. Our aerospace R&D activities are conducted at various locations in the U.S.

Additional information regarding company R&D activity is contained in Note 1 to the consolidated financial statements within Item 8 of this annual report, as well as in Item 2, Properties.

Sustainability and the Environment

Sustainability is a key part of maximizing value at Ball. In our global operations, we focus our sustainability efforts on employee safety, and reducing energy, water, waste and air emissions. In addition to those operational priorities, we identified innovation, recycling, talent management, supply chain management and community involvement as priorities for our corporate sustainability efforts. By continuously working toward reducing the environmental impacts of our products throughout their life cycle, we also improve our financial results. Information about our corporate management, goals and performance data are available at www.ball.com/sustainability.

The biggest opportunity to further minimize the environmental impacts of metal packaging is to increase recycling rates. Aluminum and steel are infinitely recyclable materials, and metal packaging is already the most recycled packaging in the world. By using recycled material for the production of aluminum and steel, up to 95 percent of the energy used for the production of virgin material can be saved. In some of Ball s markets such as Brazil, China and several European countries, recycling rates for beverage containers are in excess of 90 percent. Recycling rates vary throughout Europe but average around 67 percent for aluminum beverage containers and 71 percent for steel containers. The 2011 recycling rate in the U.S. for aluminum beverage containers was 65 percent. The 2011 U.S. recycling rate for steel containers was 71 percent.

In several of Ball s markets we help establish and financially support recycling initiatives. Educating consumers about the benefits of recycling aluminum and steel containers and collaborating with industry partners to create effective collection and recycling systems contribute to increased recycling rates. For more details about programs we support, please visit www.ball.com/recycling.

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Employee Relations

At the end of 2012, the company and its subsidiaries employed approximately 8,800 employees in the U.S. and 6,200 in other countries. Details of collective bargaining agreements are included within Item 1A, Risk Factors, of this annual report.

Where to Find More Information

Ball Corporation is subject to the reporting and other information requirements of the Securities Exchange Act of 1934, as amended (Exchange Act). Reports and other information filed with the Securities and Exchange Commission (SEC) pursuant to the Exchange Act may be inspected and copied at the public reference facility maintained by the SEC in Washington, D.C. The SEC maintains a website at www.sec.gov containing our reports, proxy materials and other items. The company also maintains a website at www.ball.com on which it provides a link to access Ball s SEC reports free of charge.

The company has established written Ball Corporation Corporate Governance Guidelines; a Ball Corporation Executive Officers and Board of Directors Business Ethics Statement; a Business Ethics booklet; and Ball Corporation Audit Committee, Nominating/Corporate Governance Committee, Human Resources Committee and Finance Committee charters. These documents are set forth on the company s website at www.ball.com, under the link Investors, and then under the link Corporate Governance. A copy may also be obtained upon request from the company s corporate secretary. The company s sustainability report and updates on Ball s progress are available at www.ball.com/sustainability.

The company intends to post on its website the nature of any amendments to the company s codes of ethics that apply to executive officers and directors, including the chief executive officer, chief financial officer and controller, and the nature of any waiver or implied waiver from any code of ethics granted by the company to any executive officer or director. These postings will appear on the company s website at www.ball.com under the link Investors, and then under the link Corporate Governance.

Item 1A. Risk Factors

Any of the following risks could materially and adversely affect our business, financial condition or results of operations.

Our business, operating results and financial condition are subject to particular risks in certain regions of the world.

We may experience an operating loss in one or more regions of the world for one or more periods, which could have a material adverse effect on our business, operating results or financial condition. Moreover, overcapacity, which often leads to lower prices, exists in a number of the regions in which we operate and may persist even if demand grows. Our ability to manage such operational fluctuations and to maintain adequate long-term strategies in the face of such developments will be critical to our continued growth and profitability.

There can be no assurance that the company s business acquisitions will be successfully integrated into the acquiring company. (See Note 3 to the consolidated financial statements within Item 8 of this annual report for details of acquisitions made during the three years ended December 31, 2012.)

While we have what we believe to be well designed integration plans, if we cannot successfully integrate the acquired operations with those of Ball, we may experience material negative consequences to our business, financial condition or results of operations. The integration of companies that have previously been operated separately involves a number of risks, including, but not limited to:

- demands on management related to the increase in our size after the acquisition;
- the diversion of management s attention from the management of existing operations to the integration of the acquired operations;
- difficulties in the assimilation and retention of employees;
- difficulties in the integration of departments, systems, including accounting systems, technologies, books and records and procedures, as well as in maintaining uniform standards, controls (including internal accounting controls), procedures and policies;
- expenses related to any undisclosed or potential liabilities; and
- retention of major customers and suppliers.

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We may not be able to achieve potential synergies or maintain the levels of revenue, earnings or operating efficiency that each business had achieved or might achieve separately. The successful integration of the acquired operations will depend on our ability to manage those operations, realize revenue opportunities and, to some degree, eliminate redundant and excess costs.

The loss of a key customer, or a reduction in its requirements, could have a significant negative impact on our sales.

We sell a majority of our packaging products to relatively few major beverage, packaged food, personal care and household product companies, some of which operate in North America, South America, Europe and Asia.

Although the majority of our customer contracts are long-term, these contracts are terminable under certain circumstances, such as our failure to meet quality, volume or market pricing requirements. Because we depend on relatively few major customers, our business, financial condition or results of operations could be adversely affected by the loss of any of these customers, a reduction in the purchasing levels of these customers, a strike or work stoppage by a significant number of these customers employees or an adverse change in the terms of the supply agreements with these customers.

The primary customers for our aerospace segment are U.S. government agencies or their prime contractors. Our contracts with these customers are subject to several risks, including funding cuts and delays, technical uncertainties, budget changes, competitive activity and changes in scope.

We face competitive risks from many sources that may negatively impact our profitability.

Competition within the packaging and aerospace industries is intense. Increases in productivity, combined with existing or potential surplus capacity in the industry, have maintained competitive pricing pressures. The principal methods of competition in the general packaging industry are price, innovation and sustainability, service and quality. In the aerospace industry they are technical capability, cost and schedule. Some of our competitors may have greater financial, technical and marketing resources, and some may currently have significant excess capacity. Our current or potential competitors may offer products at a lower price or products that are deemed superior to ours. The global economic environment has resulted in reductions in demand for our products in some instances, which, in turn, could increase these competitive pressures.

We are subject to competition from alternative products, which could result in lower profits and reduced cash flows.

Our metal packaging products are subject to significant competition from substitute products, particularly plastic carbonated soft drink bottles made from PET, single serve beer bottles and other food and beverage containers made of glass, cardboard or other materials. Competition from plastic carbonated soft drink bottles is particularly intense in the U.S., Europe and the PRC. Certain of our aerospace products are also subject to competition from alternative products and solutions. There can be no assurance that our products will successfully compete against alternative products, which could result in a reduction in our profits or cash flow.

Our packaging businesses have a narrow product range, and our business would suffer if usage of our products decreased.

For the year ended December 31, 2012, 74 percent of our consolidated net sales were from the sale of metal beverage containers, and we expect to derive a significant portion of our future revenues and cash flows from the sale of metal beverage containers. Our business would suffer if the use of metal beverage containers decreased. Accordingly, broad acceptance by consumers of aluminum and steel containers for a wide variety of beverages is critical to our future success. If demand for glass and PET bottles increases relative to metal containers, or the demand for aluminum and steel containers does not develop as expected, our business, financial condition or results of operations could be materially adversely affected.

Changes in laws and governmental regulations may adversely affect our business and operations.

We and our customers and suppliers are subject to various federal, state and provincial laws and regulations, which are increasing in number and complexity. Each of our, and their, facilities is subject to federal, state, provincial and local licensing and regulation by health, environmental, workplace safety and other agencies in multiple jurisdictions. Requirements of worldwide governmental authorities with respect to manufacturing, manufacturing facility locations within the jurisdiction, product content and safety, climate change, workplace safety and health, environmental, expropriation of assets and other standards could adversely affect our ability to manufacture or sell our products, and the ability of our customers and suppliers to manufacture and sell their products. In addition, we face risks arising from compliance with and enforcement of increasingly numerous and complex federal, state, country and provincial laws and regulations.

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Enacted regulatory developments regarding the reporting and use of conflict minerals mined from the Democratic Republic of the Congo and adjoining countries could affect the sourcing and availability of minerals used in the manufacture of certain of our products. As a result, there may only be a limited pool of suppliers who provide conflict-free materials, and we cannot give assurance that we will be able to obtain such products in sufficient quantities or at competitive prices. Also, because our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all materials used in the products that we sell. The compliance and reporting aspects of these regulations may result in incremental costs to the company.

While deposit systems and other container-related legislation have been adopted in some jurisdictions, similar legislation has been defeated in public referenda and legislative bodies in many others. We anticipate that continuing efforts will be made to consider and adopt such legislation in the future. The packages we produce are widely used and perform well in U.S. states, Canadian provinces and European countries that have deposit systems, as well as in other countries world-wide.

Significant environmental, employment-related and other legislation and regulatory requirements exist and are also evolving. The compliance costs associated with current and proposed laws and potential regulations could be substantial, and any failure or alleged failure to comply with these laws or regulations could lead to litigation or governmental action, all of which could adversely affect our financial condition or results of operations.

Our business, financial condition and results of operations are subject to risks resulting from broader geographic operations.

We derived approximately 37 percent of our consolidated net sales from outside of the U.S. for the year ended December 31, 2012. The sizeable scope of operations outside of the U.S. may lead to more volatile financial results and make it more difficult for us to manage our business. Reasons for this include, but are not limited to, the following:

- political and economic instability;
- governments restrictive trade policies;
- the imposition of duties, taxes or government royalties;
- exchange rate risks;
- difficulties in enforcement of contractual obligations and intellectual property rights; and
- the geographic, language and cultural differences between personnel in different areas of the world.

Any of these factors, many of which are also present in the U.S., could materially adversely affect our business, financial condition or results of operations.

We are exposed to exchange rate fluctuations.

Our reporting currency is the U.S. dollar. A portion of Ball s operations, including assets and liabilities and revenues and expenses, have been denominated in various currencies other than the U.S. dollar, and we expect such operations will continue to be so denominated. As a result, the U.S. dollar value of these operations has varied, and will continue to vary, with exchange rate fluctuations. Ball has been, and is presently, primarily exposed to fluctuations in the exchange rate of the euro, British pound, Canadian dollar, Polish zloty, Chinese yuan, Brazilian real and other currencies.

A decrease in the value of any of these currencies compared to the U.S. dollar, could reduce our profits from these operations and the value of their net assets when reported in U.S. dollars in our financial statements. This could have a material adverse effect on our business, financial condition or results of operations as reported in U.S. dollars. In addition, fluctuations in currencies relative to currencies in which the earnings are generated may make it more difficult to perform period-to-period comparisons of our reported results of operations.

We manage our exposure to currency fluctuations, particularly our exposure to fluctuations in the euro to U.S. dollar exchange rate, in order to attempt to mitigate the effect of cash flow and earnings volatility associated with exchange rate changes. We primarily use forward contracts and options to manage our currency exposures and, as a result, we experience gains and losses on these derivative positions offset, in part, by the impact of currency fluctuations on existing assets and liabilities. Our inability to properly manage our exposure to currency fluctuations could materially impact our results.

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If we fail to retain key management and personnel, we may be unable to implement our key objectives.

We believe that our future success depends, in part, on our experienced management team. Unforeseen losses of key members of our management team without appropriate succession and/or compensation planning could make it difficult for us to manage our business and meet our objectives.

Decreases in our ability to apply new technology and know-how may affect our competitiveness.

Our success depends partially on our ability to improve production processes and services. We must also introduce new products and services to meet changing customer needs. If we are unable to implement better production processes or to develop new products through research and development or licensing of new technology, we may not be able to remain competitive with other manufacturers. As a result, our business, financial condition or results of operations could be adversely affected.

Adverse weather and climate changes may result in lower sales.

We manufacture packaging products primarily for beverages and foods. Unseasonably cool weather can reduce demand for certain beverages packaged in our containers. In addition, poor weather conditions or changes in climate that reduce crop yields of fruits and vegetables can adversely affect demand for our food containers. Climate change could have various effects on the demand for our products in different regions around the world.

We are vulnerable to fluctuations in the supply and price of raw materials.

We purchase aluminum, steel and other raw materials and packaging supplies from several sources. While all such materials are available from independent suppliers, raw materials are subject to fluctuations in price and availability attributable to a number of factors, including general economic conditions, commodity price fluctuations (particularly aluminum on the London Metal Exchange), the demand by other industries for the same raw materials and the availability of complementary and substitute materials. Although we enter into commodities purchase agreements from time to time and sometimes use derivative instruments to seek to manage our risk, we cannot ensure that our current suppliers of raw materials will be able to supply us with sufficient quantities at reasonable prices. Economic and financial factors could impact our suppliers, thereby causing supply shortages. Increases in raw material costs could have a material adverse effect on our business, financial condition or results of operations. In the Americas, Europe and Asia, some contracts do not allow us to pass along increased raw material costs and we generally use derivative agreements to seek to manage this risk. Our hedging procedures may be insufficient and our results could be materially impacted if costs of materials increase. Due to the fixed price contracts and derivative activities, while increasing raw material costs may not impact our near-term profitability, increased prices could decrease our sales volume over time.

Prolonged work stoppages at facilities with union employees could jeopardize our financial position.

As of December 31, 2012, approximately 46 percent of our North American packaging facility employees and approximately 75 percent of our European packaging plant employees were covered by collective bargaining agreements. These collective bargaining agreements have staggered expirations during the next several years. Although we consider our employee relations to be generally good, a prolonged work stoppage or strike at any facility with union employees could have a material adverse effect on our business, financial condition or results of operations. In addition, we cannot ensure that upon the expiration of existing collective bargaining agreements, new agreements will be reached without union action or that any such new agreements will be on terms satisfactory to us.

Our aerospace and technologies segment is subject to certain risks specific to that business.

In our aerospace business, U.S. government contracts are subject to reduction or modification in the event of changes in requirements, and the government may also terminate contracts at its convenience pursuant to standard termination provisions. In such instances, Ball may be entitled to reimbursement for allowable cost and profits on authorized work that has been performed through the date of termination.

In addition, budgetary constraints may result in further reductions to projected spending levels by the U.S. government. In particular, government expenditures are subject to the potential for automatic reductions, generally referred to as sequestration. Sequestration may occur during 2013, resulting in significant additional reductions to spending by various U.S government defense and aerospace agencies on both existing and new contracts, as well as the disruption of ongoing programs. Even if sequestration does not occur, we expect that budgetary constraints and ongoing concerns regarding the U.S. national debt will continue to place downward pressure on agency spending levels. Due to these and other factors, overall spending on various programs could decline, which could result in significant reductions to revenue, cash flows, net earnings and backlog primarily in our aerospace and technologies segment.

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We use estimates in accounting for many of our programs in our aerospace business, and changes in our estimates could adversely affect our future financial results.

We account for sales and profits on some long-term contracts in our aerospace business in accordance with the percentage-of-completion method of accounting, using the cumulative catch-up method to account for updates in estimates. The percentage-of-completion method of accounting involves the use of various estimating techniques to project revenues and costs at completion and various assumptions and projections relative to the outcome of future events, including the quantity and timing of product deliveries, future labor performance and rates, and material and overhead costs. These assumptions involve various levels of expected performance improvements. Under the cumulative catch-up method, the impact of updates in our estimates related to units shipped to date is recognized immediately.

Because of the significance of the judgments and estimates described above, it is likely that we could record materially different amounts if we used different assumptions or if the underlying circumstances or estimates were to change. Accordingly, updates in underlying assumptions, circumstances or estimates may materially affect our future financial performance.

Our backlog includes both cost-type and fixed-price contracts. Cost-type contracts generally have lower profit margins than fixed-price contracts. Our earnings and margins may vary depending on the types of government contracts undertaken, the nature of the work performed under those contracts, the costs incurred in performing the work, the achievement of other performance objectives and their impact on our ability to receive fees.

As a U.S. government contractor, we could be adversely affected by changes in regulations or any negative findings from a U.S. government audit or investigation.

We operate in a highly regulated environment and are routinely audited and reviewed by the U.S. government and its agencies, such as the Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA). These agencies review performance under our contracts, our cost structure and our compliance with applicable laws, regulations and standards, as well as the adequacy of, and our compliance with, our internal control systems and policies. Systems that are subject to review under the new DoD Federal Acquisition Regulation Supplement (DFARS) effective May 18, 2011, are accounting and billing systems, purchasing systems, estimating systems, material management and accounting systems and earned value management systems. Any costs ultimately found to be unallowable or improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties, sanctions or suspension or debarment from doing business with the U.S. government. Whether or not illegal activities are alleged, the U.S. government also has the ability to decrease or withhold certain payments when it deems systems subject to its review to be inadequate. If such actions were to result in suspension or debarment, this could have a material adverse effect on our business.

Our business is subject to substantial environmental remediation and compliance costs.

Our operations are subject to federal, state, provincial and local laws and regulations in multiple jurisdictions relating to environmental hazards, such as emissions to air, discharges to water, the handling and disposal of hazardous and solid wastes and the cleanup of hazardous substances. We have been designated, along with numerous other companies, as a potentially responsible party for the cleanup of several hazardous waste

sites. Based on available information, we do not believe that any costs incurred in connection with such sites will have a material adverse effect on our financial condition, results of operations, capital expenditures or competitive position. There is increased focus on the regulation of greenhouse gas emissions and other environmental issues worldwide.

Our business faces the potential of increased regulation on some of the raw materials utilized in our packaging operations.

Our operations are subject to federal, state, provincial and local laws and regulations in multiple jurisdictions relating to some of the raw materials, such as epoxy-based coatings utilized in our container making process. Epoxy-based coatings may contain Bisphenol-A (BPA). Scientific evidence evaluated by regulatory agencies in the United States, Canada, Europe, Japan, Australia and New Zealand has consistently shown these coatings to be safe for food contact at current levels, and these regulatory agencies have stated that human exposure to BPA from epoxy-based container coatings is well below safe exposure limits set by government bodies worldwide. A significant change in these regulatory agency statements or other adverse information concerning BPA could have a material adverse effect on our business, financial condition or results of operations. Ball recognizes that significant interest exists in non epoxy-based coatings, and we have been proactively working with coatings suppliers and our customers to evaluate alternatives to current coatings.

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Net earnings and net worth could be materially affected by an impairment of goodwill.

We have a significant amount of goodwill recorded on the consolidated balance sheet as of December 31, 2012. We are required at least annually to test the recoverability of goodwill. The recoverability test of goodwill is based on the current fair value of our identified reporting units. Fair value measurement requires assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows and discount rates. If general market conditions deteriorate in portions of our business, we could experience a significant decline in the fair value of reporting units. This decline could lead to an impairment of all or a significant portion of the goodwill balance, which could materially affect our U.S. GAAP net earnings and net worth.

If the investments in Ball s pension plans, or in the multiemployer pension plans in which Ball participates, do not perform as expected, we may have to contribute additional amounts to the plans, which would otherwise be available to cover operating expenses and fund growth opportunities.

Ball maintains defined benefit pension plans covering substantially all of its North American and United Kingdom employees, which are funded based on certain actuarial assumptions. The plans assets consist primarily of common stocks, fixed income securities and, in the U.S., alternative investments. Market declines, longevity increases or legislative changes, such as the Pension Protection Act in the U.S., could result in a prospective decrease in our available cash flow and net earnings over time, and the recognition of an increase in our pension obligations could result in a reduction to our shareholders equity. Additional risks exist related to the company s participation in multiemployer pension plans. Assets contributed to a multiemployer pension plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer in a multiemployer pension plan stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participants. This could result in increases to our contributions to the plans as well as pension expense.

Restricted access to capital markets could adversely affect our short-term liquidity and prevent us from fulfilling our obligations under the notes issued pursuant to our bond indentures.

On December 31, 2012, we had total debt of $3.3 billion and unused committed credit lines of approximately $773 million. A reduction in global market liquidity could:

- restrict our ability to fund working capital, capital expenditures, research and development expenditures and other business activities;
- increase our vulnerability to general adverse economic and industry conditions, including the credit risks stemming from the economic environment;
- limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;
- restrict us from making strategic acquisitions or exploiting business opportunities; and
- limit, along with the financial and other restrictive covenants in our debt, among other things, our ability to borrow additional funds, dispose of assets, pay cash dividends or refinance debt maturities.

In addition, approximately one-fourth of our debt bears interest at variable rates. If market interest rates increase, variable-rate debt will create higher debt service requirements, which would adversely affect our cash flow. While we sometimes enter into agreements limiting our exposure, any such agreements may not offer complete protection from this risk.

The global credit, financial and economic environment could have a negative impact on our results of operations, financial position or cash flows.

The overall credit, financial and economic environment could have significant negative effects on our operations, including the following:

- the creditworthiness of customers, suppliers and counterparties could deteriorate resulting in a financial loss or a disruption in our supply of raw materials;
- volatile market performance could affect the fair value of our pension assets, potentially requiring us to make significant additional contributions to our defined benefit plans to maintain prescribed funding levels;
- a significant weakening of our financial position or operating results could result in noncompliance with our debt covenants; and
- reduced cash flow from our operations could adversely affect our ability to execute our long-term strategy to increase liquidity, reduce debt, repurchase our stock and invest in our businesses.

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Changes in U.S. generally accepted accounting principles (U.S. GAAP) and Securities and Exchange Commission (SEC) rules and regulations could materially impact our reported results.

U.S. GAAP and SEC accounting and reporting changes are common and have become more frequent and significant over the past several years. Furthermore, the U.S. and international accounting standard setters are in the process of jointly converging several key accounting standards. These changes could have significant effects on our reported results when compared to prior periods and other companies and may even require us to retrospectively adjust prior periods. Additionally, material changes to the presentation of transactions in the consolidated financial statements could impact key ratios that analysts and credit rating agencies use to rate Ball and ultimately our ability to access the credit markets in an efficient manner.

Increased information technology (IT) security threats and more sophisticated and targeted computer crime could pose a risk to our systems, networks, products, solutions and services.

Increased global IT security threats and more sophisticated and targeted computer crime pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. While we attempt to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems, our systems, networks, products, solutions and services remain potentially vulnerable to advanced persistent threats. Depending on their nature and scope, such threats could potentially lead to the compromise of confidential information, improper use of our systems and networks, manipulation and destruction of data, defective products, production downtimes and operational disruptions, which in turn could adversely affect our reputation, competitiveness and results of operations.

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Item 1B. Unresolved Staff Comments

There were no matters required to be reported under this item.

Item 2. Properties

The company s properties described below are well maintained, are considered adequate and are being utilized for their intended purposes.

Ball s corporate headquarters and the aerospace and technologies segment management offices are located in Broomfield, Colorado. The operations of the aerospace and technologies segment occupy a variety of company-owned and leased facilities in Colorado, which together aggregate 1.4 million square feet of office, laboratory, research and development, engineering and test and manufacturing space. Other aerospace and technologies operations carry on business in smaller company-owned and leased facilities in New Mexico, Ohio, Virginia and Washington, D.C.

The offices of the company s various North American packaging operations are located in Westminster, Colorado; the offices for the European packaging operations are located in Zurich, Switzerland; the offices for the PRC packaging operations are located in Hong Kong; and Latapack-Ball s offices are located in São Paulo, Brazil. The company s BTIC research and development facility and European technical center are located in Westminster, Colorado, and in Bonn, Germany, respectively.

Information regarding the approximate size of the manufacturing locations for significant packaging operations, which are owned or leased by the company, is set forth below. Facilities in the process of being constructed or that have ceased production have been excluded from the list. Where certain locations include multiple facilities, the total approximate size for the location is noted. In addition to the facilities listed, the company leases other warehousing space.

Plant Location	**Approximate Floor Space in Square Feet**
Metal beverage packaging, Americas and Asia, manufacturing facilities:	
North America	
Fairfield, California	337,000
Golden, Colorado	509,000
Gainesville, Florida	88,000
Tampa, Florida	276,000
Rome, Georgia	386,000
Kapolei, Hawaii	131,000
Monticello, Indiana	356,000
Saratoga Springs, New York	290,000
Wallkill, New York	312,000

Reidsville, North Carolina	452,000
Findlay, Ohio *(a)*	733,000
Whitby, Ontario, Canada	205,000
Conroe, Texas	275,000
Fort Worth, Texas	322,000
Bristol, Virginia	242,000
Williamsburg, Virginia	400,000
Fort Atkinson, Wisconsin	250,000
Milwaukee, Wisconsin (including leased warehouse space) *(a)*	502,000
South America	
Alagoinhas, Bahia, Brazil	375,000
Jacarei, Sao Paulo, Brazil	467,000
Salvador, Bahia, Brazil	99,000
Tres Rios, Rio de Janeiro, Brazil	418,000

(a) Includes both metal beverage container and metal food container manufacturing operations.

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Plant Location (continued)	Approximate Floor Space in Square Feet
Metal beverage packaging, Americas and Asia, manufacturing facilities (continued):	
Asia	
Beijing, PRC	303,000
Hubei (Wuhan), PRC	237,000
Sanshui (Foshan), PRC	544,000
Shenzhen, PRC	377,000
Taicang, PRC (leased)	81,000
Tianjin, PRC	47,000
Qingdao, PRC	326,000
Metal beverage packaging, Europe, manufacturing facilities:	
Velim, Czech Republic	186,000
Beaurepaire, France	83,000
Bellegarde, France	124,000
Bierne, France	263,000
La Ciotat, France	393,000
Braunschweig, Germany	258,000
Hassloch, Germany	283,000
Hermsdorf, Germany	425,000
Weissenthurm, Germany	331,000
Oss, Netherlands	344,000
Radomsko, Poland	312,000
Belgrade, Serbia	352,000
Devizes, United Kingdom	94,000
Deeside, United Kingdom	115,000
Rugby, United Kingdom	175,000
Wrexham, United Kingdom	222,000
Metal food and household products packaging, Americas, manufacturing facilities:	
North America	
Springdale, Arkansas	286,000
Oakdale, California	370,000
Danville, Illinois	110,000
Elgin, Illinois (including leased warehouse space)	563,000
Baltimore, Maryland (including leased warehouse space)	251,000
San Luis Potosí, Mexico	84,000
Columbus, Ohio	305,000
Findlay, Ohio *(a)*	733,000
Hubbard, Ohio	175,000
Horsham, Pennsylvania	162,000
Sherbrooke, Quebec, Canada	99,000
Chestnut Hill, Tennessee	305,000
Verona, Virginia	72,000
Weirton, West Virginia (leased)	332,000
DeForest, Wisconsin	400,000
Milwaukee, Wisconsin (including leased warehouse space) *(a)*	502,000
South America	
Buenos Aires, Argentina (leased)	34,000
San Luis, Argentina	51,000

(a) Includes both metal beverage container and metal food container manufacturing operations.

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Item 3. Legal Proceedings

Details of the company s legal proceedings are included in Note 21 to the consolidated financial statements within Item 8 of this annual report.

Item 4. Mine Safety Disclosures.

Not applicable.

Part II

Item 5. Market for the Registrant s Common Stock and Related Stockholder Matters

Ball Corporation common stock (BLL) is traded on the New York Stock Exchange. There were 5,479 common shareholders of record on February 15, 2013.

Common Stock Repurchases

The following table summarizes the company s repurchases of its common stock during the quarter ended December 31, 2012.

	Purchases of Securities				
($ in millions)	Total Number of Shares Purchased (a)		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (b)
October 1 to October 28, 2012		$			21,243,709
October 29 to November 25, 2012	1,947,528	$	43.90	1,947,528	19,296,181
November 26 to December 29, 2012	2,609,809	$	44.50	2,609,809	16,686,372
Total	4,557,337	$	44.24	4,557,337	

(a) Includes open market purchases (on a trade-date basis) and/or shares retained by the company to settle employee withholding tax liabilities.

(b) The company has an ongoing repurchase program for which shares are authorized from time to time by Ball s board of directors. On January 25, 2012, the Board authorized the repurchase by the company of up to a total of 30 million shares. This repurchase authorization replaced all previous authorizations.

Quarterly Stock Prices and Dividends

Quarterly prices for the company s common stock, as reported on the New York Stock Exchange composite tape, and quarterly dividends in 2012 and 2011 (on a calendar quarter basis) were:

	2012				2011			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
High	$ 45.47	$ 43.79	$ 43.70	$ 42.99	$ 36.11	$ 40.56	$ 39.55	$ 37.43
Low	41.11	39.33	38.39	35.66	29.69	30.67	35.60	33.41
Dividends per share	0.10	0.10	0.10	0.10	0.07	0.07	0.07	0.07

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Shareholder Return Performance

The line graph below compares the annual percentage change in Ball Corporation s cumulative total shareholder return on its common stock with the cumulative total return of the Dow Jones Containers & Packaging Index and the S&P Composite 500 Stock Index for the five-year period ended December 31, 2012. It assumes $100 was invested on December 31, 2007, and that all dividends were reinvested. The Dow Jones Containers & Packaging Index total return has been weighted by market capitalization.

TOTAL RETURN TO STOCKHOLDERS

(Assumes $100 investment on 12/31/07)

Total Return Analysis

	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012

Ball Corporation	$	100.00	$	93.28	$	117.01	$	155.14	$	164.09	$	207.62
DJ US Containers & Packaging	$	100.00	$	61.55	$	84.76	$	97.78	$	96.27	$	107.76
S&P 500	$	100.00	$	61.51	$	75.94	$	85.65	$	85.65	$	97.13

Source: Bloomberg L.P. ®Charts

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Item 6. Selected Financial Data

Five-Year Review of Selected Financial Data

Ball Corporation and Subsidiaries

($ in millions, except per share amounts)	**2012**	**2011**	**2010**	**2009**	**2008**
Net sales	$ 8,735.7	$ 8,630.9	$ 7,630.0	$ 6,710.4	$ 6,826.1
Earnings before interest and taxes (EBIT)	$ 790.5	$ 836.9	$ 764.6	$ 653.8	$ 580.6
Total interest expense	(194.9)	(177.1)	(158.2)	(117.2)	(137.7)
Earnings before taxes	$ 595.6	$ 659.8	$ 606.4	$ 536.6	$ 442.9
Net earnings attributable to Ball Corporation from:					
Continuing operations *(a)*	$ 406.3	$ 446.3	$ 542.9	$ 390.1	$ 314.9
Discontinued operations	(2.8)	(2.3)	(74.9)	(2.2)	4.6
Total net earnings attributable to Ball Corporation	$ 403.5	$ 444.0	$ 468.0	$ 387.9	$ 319.5
Basic earnings per share *(b)*:					
Basic continuing operations *(a)*	$ 2.63	$ 2.70	$ 3.00	$ 2.08	$ 1.64
Basic discontinued operations	(0.02)	(0.01)	(0.41)	(0.01)	0.03
Basic earnings per share	$ 2.61	$ 2.69	$ 2.59	$ 2.07	$ 1.67
Weighted average common shares outstanding (000s) *(b)*	154,648	165,275	180,746	187,572	191,714
Diluted earnings per share *(b)*:					
Diluted continuing operations *(a)*	$ 2.57	$ 2.64	$ 2.96	$ 2.05	$ 1.62
Diluted discontinued operations	(0.02)	(0.01)	(0.41)	(0.01)	0.03
Diluted earnings per share	$ 2.55	$ 2.63	$ 2.55	$ 2.04	$ 1.65
Diluted weighted average common shares outstanding (000s) *(b)*	158,084	168,590	183,538	189,978	194,038
Total assets	$ 7,507.1	$ 7,284.6	$ 6,927.7	$ 6,488.3	$ 6,368.7
Total interest bearing debt and capital lease obligations	$ 3,305.1	$ 3,144.1	$ 2,812.3	$ 2,596.2	$ 2,410.1
Cash dividends per share *(b)*	$ 0.40	$ 0.28	$ 0.20	$ 0.20	$ 0.20
Total cash provided by operating activities	$ 853.2	$ 948.4	$ 515.2	$ 559.7	$ 627.6
Non-GAAP Measures *(c)*					
Comparable EBIT	$ 893.3	$ 867.2	$ 753.6	$ 640.4	$ 617.3
Comparable earnings	$ 483.0	$ 459.6	$ 433.0	$ 372.4	$ 337.6
Diluted earnings per share (comparable basis)	$ 3.06	$ 2.73	$ 2.36	$ 1.96	$ 1.74
Free cash flow	$ 548.2	$ 504.6	$ 505.8	$ 372.6	$ 320.7

(a) Includes business consolidation activities and other items affecting comparability between years. Additional details about the 2012, 2011 and 2010 items are available in Notes 3, 4 and 5 to the consolidated financial statements within Item 8 of this Annual Report on Form 10-K.

(b) The 2009 and 2008 amounts have been retrospectively adjusted for the two-for-one stock split that was effective on February 15, 2011.

(c) Non-U.S. GAAP measures should not be considered in isolation and should not be considered superior to, or a substitute for, financial measures calculated in accordance with U.S. GAAP. See below for reconciliations of non-U.S. GAAP financial measures to U.S. GAAP measures. Further discussion of non-GAAP financial measures is available in Item 7 of this annual report under Other Liquidity Measures.

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Reconciliations of non-U.S. GAAP financial measures to U.S. GAAP measures are as follows:

($ in millions)	2012	2011	2010	2009	2008
Earnings before taxes, as reported	$ 595.6	$ 659.8	$ 606.4	$ 536.6	$ 442.9
Total interest expense	194.9	177.1	158.2	117.2	137.7
Earnings before interest and taxes (EBIT)	790.5	836.9	764.6	653.8	580.6
Business consolidation and other activities	102.8	30.3	(11.0)	(13.4)	36.7
Comparable EBIT	$ 893.3	$ 867.2	$ 753.6	$ 640.4	$ 617.3
Net earnings attributable to Ball Corporation, as reported	$ 403.5	$ 444.0	$ 468.0	$ 387.9	$ 319.5
Discontinued operations, net of tax	2.8	2.3	74.9	2.2	(4.6)
Business consolidation and other activities, net of tax	67.5	22.5	(9.3)	13.0	27.1
Equity earnings and gains related to acquisitions, net of tax		(9.2)	(105.9)		
Gains on dispositions, net of tax				(30.7)	(4.4)
Debt refinancing costs, net of tax	9.2		5.3		
Net earnings attributable to Ball Corporation before above transactions (Comparable Earnings)	$ 483.0	$ 459.6	$ 433.0	$ 372.4	$ 337.6
Total cash provided by operating activities	$ 853.2	$ 948.4	$ 515.2	$ 559.7	$ 627.6
Adjust for increase in accounts receivable due to change in accounting for securitization program			250.0		
Capital expenditures, including discontinued operations	(305.0)	(443.8)	(259.4)	(187.1)	(306.9)
Free cash flow	$ 548.2	$ 504.6	$ 505.8	$ 372.6	$ 320.7

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes included in Item 8 of this Annual Report on Form 10-K, which include additional information about our accounting policies, practices and the transactions underlying our financial results. The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires us to make estimates and assumptions that affect the reported amounts in our consolidated financial statements and the accompanying notes including various claims and contingencies related to lawsuits, taxes, environmental and other matters arising during the normal course of business. We apply our best judgment, our knowledge of existing facts and circumstances and actions that we may undertake in the future in determining the estimates that affect our consolidated financial statements. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effects cannot be determined with precision, actual results may differ from these estimates. Ball Corporation and its subsidiaries are referred to collectively as Ball Corporation, Ball, the company or we or our in the following discussion and analysis.

OVERVIEW

Business Overview and Industry Trends

Ball Corporation is one of the world s leading suppliers of metal packaging to the beverage, food, personal care and household products industries. Our packaging products are produced for a variety of end uses, are manufactured in facilities around the world and are competitive with other substrates, such as plastics and glass. In the rigid packaging industry, sales and earnings can be increased by reducing costs, increasing prices, developing new products, expanding volumes and making strategic acquisitions. We also provide aerospace and other technologies and services to governmental and commercial customers.

We sell our packaging products mainly to large, multinational beverage, food, personal care and household products companies with which we have developed long-term customer relationships. This is evidenced by our high customer retention and our large number of long-term supply contracts. While we have a diversified customer base, we sell a majority of our packaging products to relatively few major companies in North America, Europe, the PRC and South America, as do our equity joint ventures in the U.S. and Vietnam. The overall metal beverage and aerosol container industries are growing globally and are expected to continue to grow in the medium to long term despite the North American market seeing a continued slight decline. The primary customers for the products and services provided by our aerospace and technologies segment are U.S. government agencies or their prime contractors.

We purchase our raw materials from relatively few suppliers. We also have exposure to inflation, in particular the rising costs of raw materials, as well as other direct cost inputs. We mitigate our exposure to the changes in the costs of metal through the inclusion of provisions in a majority of our packaging sales contracts to pass through metal price changes, as well as through the use of derivative instruments. The pass-through provisions generally result in proportional increases or decreases in sales and costs with a greatly reduced impact, if any, on net earnings. Because of our customer and supplier concentration, our business, financial condition and results of operations could be adversely affected by the loss, insolvency or bankruptcy of a major customer or supplier or a change in a supply agreement with a major customer or supplier, although our contract provisions generally mitigate the risk of customer loss, and our long-term relationships represent a known, stable customer base.

We recognize sales under long-term contracts in the aerospace and technologies segment using percentage-of-completion under the cost-to-cost method of accounting. Throughout the period of contract performance, we regularly reevaluate and, if necessary, revise our estimates of aerospace and technologies total contract revenue, total contract cost and progress toward completion. Because of contract payment schedules, limitations on funding and other contract terms, our sales and accounts receivable for this segment include amounts that have been earned but not yet billed.

The aerospace and technologies contract mix in 2012 consisted of approximately 60 percent cost-type contracts, which are billed at our costs plus an agreed upon and/or earned profit component, and 34 percent fixed-price contracts. The remainder represents time and material contracts, which typically provide for the sale of labor at fixed hourly rates. The contracted backlog of approximately $1.0 billion at December 31, 2012, consisted of approximately 38 percent fixed price contracts.

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Corporate Strategy

Our Drive for 10 vision encompasses five strategic levers that are key to growing our business and achieving long-term success. During 2012 and 2011, we made progress on each of our Drive for 10 levers as described in the following:

- maximizing value in our existing businesses through reducing standard beverage container and end capacity in North America and the expansion of specialty container production to meet current demand, redeployment of surplus equipment to other global locations, closure of certain metal beverage facilities and relocating our European headquarters to Zurich, Switzerland, to gain business, customer and supplier efficiencies;

- expanding into new products and capabilities through expansion into extruded aluminum aerosol manufacturing with the acquisitions of Envases in December 2012 and Aerocan in January 2011;

- aligning ourselves with the right customers and markets by investing capital to meet double-digit volume growth for specialty beverage containers throughout the global network;

- broadening our geographic reach with the construction and start up of three beverage container manufacturing facilities in China, Brazil and Vietnam; and

- leveraging our technological expertise in packaging innovation and aerospace technologies to maintain our competitive advantage today and in the future. The backlog in our aerospace business increased 14 percent during 2012 to $1.0 billion.

These ongoing business developments help us stay close to our customers while expanding and/or sustaining our industry positions with major beverage, food, personal care, household products and aerospace customers.

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RESULTS OF OPERATIONS

Consolidated Sales and Earnings

($ in millions)	Years Ended December 31, 2012	2011	2010
Net sales	$ 8,735.7	$ 8,630.9	$ 7,630.0
Net earnings attributable to Ball Corporation	403.5	444.0	468.0
Net earnings attributable to Ball Corporation as a % of consolidated net sales	4.6%	5.1%	6.1%

The increase in net sales in 2012 compared to 2011 was driven largely by higher sales in Aerospace and higher beverage container sales volumes in certain geographical regions being offset by lower sales volumes in food and household containers and unfavorable currency translation effects in Europe. Earnings were favorably impacted by higher sales volumes in certain geographical regions, improved pricing and product sales mix and continued year-over-year improvement in our manufacturing costs while negatively impacted by higher distribution and warehousing costs and new facility start up costs in other markets. In addition to the business segment performance analyzed below, net earnings attributable to Ball Corporation included discontinued operations, higher business consolidation and debt refinancing costs, a decrease in equity earnings and a lower tax rate in 2012. These items are detailed in the Management Performance Measures section below.

The increase in net sales in 2011 compared to 2010 was driven largely by the increase in demand for metal packaging in the PRC, improved beverage container volumes in the Americas, the consolidation of Latapack-Ball, the acquisitions of two PRC joint ventures and the extruded aluminum businesses, and improved aerospace program performance.

Cost of Sales (Excluding Depreciation and Amortization)

Cost of sales, excluding depreciation and amortization, was $7,174.0 million in 2012 compared to $7,081.2 million in 2011 and $6,254.1 million in 2010. These amounts represented 82.1 percent, 82.0 percent and 82.0 percent of consolidated net sales for those three years, respectively.

Depreciation and Amortization

Depreciation and amortization expense was $282.9 million in 2012 compared to $301.1 million in 2011 and $265.5 million in 2010. These amounts represented 3.2 percent, 3.5 percent and 3.5 percent of consolidated net sales for those three years, respectively. The lower depreciation and amortization expense in 2012 compared to 2011 was primarily due to the revision of estimated useful lives of certain capital equipment and tooling. Further details of the revised estimated lives are available in Note 1 accompanying the consolidated financial statements included within Item 8 of this report. The higher depreciation and amortization expense in 2011 compared to 2010 was primarily due to acquisitions, capital spending in existing businesses in excess of historical levels and changes in currency exchange rates.

Selling, General and Administrative

Selling, general and administrative (SG&A) expenses were $385.5 million in 2012 compared to $381.4 million in 2011 and $356.8 million in 2010. These amounts represented 4.4 percent, 4.4 percent and 4.7 percent of consolidated net sales for those three years, respectively. There were no individually significant items affecting 2012 compared to 2011. The increase in SG&A in 2011 compared to 2010 was due to unfavorable currency exchange effects, the consolidation of our acquisitions and other individually insignificant higher costs.

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Interest Expense

Consolidated interest expense was $194.9 million in 2012 compared to $177.1 million in 2011 and $158.2 million in 2010. Interest expense in 2012 included $15.1 million for the call premium and the write off of unamortized financing costs and issuance premiums related to the tender of Ball s 6.625 percent senior notes due March 2018. Interest expense in 2012 compared to 2011, excluding debt refinancing costs, was slightly higher due to higher levels of debt, including the issuance of $750 million of senior notes in March 2012, partially offset by lower interest rates.

The higher interest expense in 2011 compared to 2010, excluding debt refinancing costs, was due to higher levels of debt related to the acquisitions of Aerocan, JFP and Neuman Aluminum (Neuman), the consolidation of Latapack-Ball and higher share repurchases, as well as the refinancing of the company s bank credit facilities in December 2010. Interest expense as a percentage of average monthly borrowings was 5.5 percent in 2012, 5.4 percent in 2011 and 5.3 percent in 2010.

Tax Provision

The effective income tax rate for earnings from continuing operations was 27.7 percent in 2012 compared to 30.5 percent in 2011 and 29.0 percent in 2010. The lower rate in 2012 compared to 2011 was primarily the net result of the release of various income tax reserves effectively settled with taxing jurisdictions, a lower income tax rate on foreign earnings and an increased tax benefit on company and trust-owned life insurance. The higher rate in 2011 compared to 2010 was primarily due to significant discrete period tax benefits in 2010 not recurring in 2011 related to a change in entity status of a foreign subsidiary and the 2010 world-wide debt refinancing. These two items were partially offset by a lower 2011 effective income tax rate on foreign earnings, primarily related to the inclusion of a full year of Brazil s results and the acquisition of Aerocan, both of which have income tax holidays.

Equity in Results of Affiliates

In October 2011, we acquired our partners 60 percent equity interests in QMCP, and recorded a gain of $9.2 million on the fair value of our previously held equity ownership as a result of the required purchased accounting. Additionally, in March 2011 we entered into a joint venture agreement with Thai Beverage Can Limited to construct a beverage container manufacturing facility in Vietnam that began production in the first quarter of 2012.

In August 2010, we acquired an additional 10.1 percent economic interest in our Brazilian beverage packaging joint venture, Latapack-Ball, increasing our overall economic ownership interest in the joint venture to 60.1 percent. In connection with the acquisition of the additional interest in Latapack-Ball, we recorded a gain of $81.8 million on the fair value of the previously held 50 percent equity ownership as a result of the required purchase accounting.

In June 2010, we acquired our partner s 65 percent interest in JFP and entered into a long-term supply agreement. In connection with the acquisition, we recorded equity earnings of $24.1 million, which was composed of equity earnings, gains on the forgiveness of debt and guarantees and a gain realized on the fair value of Ball s equity investment as a result of the required purchase accounting.

Results of Business Segments

Metal Beverage Packaging, Americas and Asia

($ in millions)	Years Ended December 31, 2012	2011	2010
Net sales	$ 4,541.7	$ 4,415.8	$ 3,850.4
Segment earnings	$ 522.5	$ 481.7	$ 418.3
Business consolidation and other activities *(a)*	(52.4)	(11.0)	
Total segment earnings	$ 470.1	$ 470.7	$ 418.3
Segment earnings before business consolidation costs as a % of segment net sales	11.5%	10.9%	10.9%

(a) Further details of these items are included in Note 5 to the consolidated financial statements within Item 8 of this annual report.

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The metal beverage packaging, Americas and Asia, segment consists of operations located in the U.S., Canada, Brazil and the PRC, which manufacture metal container products used in beverage packaging, as well as non-beverage plastic containers manufactured and sold in the PRC. Our acquisition of the remaining 60 percent interest in QMCP was completed in October 2011, and our acquisition of our partner s 65 percent interest in JFP was completed in June 2010. In August 2010, we acquired an additional economic interest in Latapack-Ball. The results of these acquired entities have been included in the metal beverage packaging, Americas and Asia, segment since their acquisition dates. These acquisitions are discussed in Note 3 to the consolidated financial statements within Item 8 of this annual report.

Segment sales in 2012 were $125.9 million higher compared to 2011 primarily due to favorable sales mix of $73 million, higher sales volumes and contribution from the new facilities in Qingdao, PRC, and Alagoinhas, Brazil.

Segment sales in 2011 were $565.4 million higher compared to 2010 attributable mainly to $268 million from the consolidation of Latapack-Ball and the acquisition of two PRC joint ventures, $190 million from higher sales volumes and $96 million from higher commodity input prices.

Segment earnings in 2012 were $40.8 million higher than in 2011 due to $51 million from favorable sales mix, higher sales volumes and lower depreciation as a result of the change in the estimated useful lives, partially offset by $20 million from higher distribution and warehousing costs and higher tooling, spare parts and dunnage expense as a result of the accounting change.

Segment earnings in 2011 were $63.4 million higher than in 2010 due to $45 million from the consolidation of Latapack-Ball and the acquisition of two PRC joint venture interests, $35 million from higher sales volumes and $16 million from improved manufacturing performance, partially offset by $38 million of higher manufacturing and distribution costs.

Metal Beverage Packaging, Europe

	Years Ended December 31,		
($ in millions)	**2012**	**2011**	**2010**
Net sales	$ 1,950.0	$ 2,017.6	$ 1,699.1
Segment earnings	$ 219.0	$ 243.7	$ 213.5
Business consolidation and other activities *(a)*	(9.6)	(14.1)	(3.2)
Total segment earnings	$ 209.4	$ 229.6	$ 210.3
Segment earnings before business consolidation costs as a % of segment net sales	11.2%	12.1%	12.6%

(a) Further details of these items are included in Note 5 to the consolidated financial statements within Item 8 of this annual report.

The metal beverage packaging, Europe, segment includes the manufacture of metal beverage containers, extruded aluminum aerosol containers and aluminum slugs. Ball has manufacturing facilities located in Germany, the United Kingdom, France, the Netherlands, Poland, Serbia and the Czech Republic. During the third quarter of 2012, we acquired Tubettificio, a small regional manufacturer of metal beverage packaging containers in Italy and consolidated it into other existing facilities. In January 2011, we acquired Aerocan, a leading European supplier of aluminum aerosol containers, bottles and slugs. These acquisitions are discussed in Note 3 to the consolidated financial statements within Item 8 of this annual report.

Segment sales in 2012 decreased $67.6 million compared to 2011 due to $157 million from unfavorable currency exchange effects, partially offset by $77 million from higher sales volumes and favorable product sales mix.

Segment sales in 2011 increased $318.5 million compared to 2010 due to $180 million from the inclusion of Aerocan sales, $100 million from the effect of currency exchange rates and $31 million from higher sales volumes.

Segment earnings in 2012 decreased $24.7 million compared to 2011 primarily due to $14 million from unfavorable currency exchange effects and other higher operating costs.

Segment earnings in 2011 increased $30.2 million compared to 2010 due to $38 million earnings contribution from the Aerocan acquisition, $13 million from the effect of currency exchange rates and $13 million from higher volumes, partially offset by $35 million from higher inventory and other costs.

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Metal Food and Household Products Packaging, Americas

($ in millions)		Years Ended December 31, 2012		2011		2010
Net sales	$	1,381.4	$	1,426.4	$	1,370.1
Segment earnings	$	131.1	$	133.7	$	129.1
Business consolidation and other activities *(a)*		(27.5)		(1.9)		18.3
Total segment earnings	$	103.6	$	131.8	$	147.4
Segment earnings before business consolidation costs as a % of segment net sales		9.5%		9.4%		9.4%

(a) Further details of these items are included in Note 5 to the consolidated financial statements within Item 8 of this annual report.

The metal food and household products packaging, Americas, segment consists of operations located in the U.S., Canada, Mexico and Argentina that manufacture and sell metal food, aerosol, paint and general line containers, decorative specialty containers, extruded aluminum aerosol containers and aluminum slugs.

In December 2012, the company acquired a manufacturing facility from Envases, a leading producer of extruded aluminum aerosol packaging in Mexico with a single manufacturing facility in San Luis Potosí, for $55.9 million in cash, net of cash acquired, and assumed debt of $72.7 million. The acquisition is discussed in Note 3 to the consolidated financial statements within Item 8 of this annual report.

Segment sales in 2012 decreased $45.0 million compared to 2011 due to lower sales volumes, partially offset by pricing and product mix.

Segment sales in 2011 increased $56.3 million compared to 2010 primarily due to the inclusion of a full year of aluminum slug sales associated with the Neuman facilities of $108 million and improved pricing and sales mix, partially offset by $73 million from lower sales volumes.

Segment earnings in 2012 decreased $2.6 million compared to 2011 primarily due to nonrecurring inventory holding gains in 2011 of $16 million and lower 2012 sales volumes, partially offset by favorable manufacturing performance and improved pricing and product mix.

Segment earnings in 2011 increased $4.6 million compared to 2010 mainly due to the year over year impact of lower cost inventory of $16 million in 2011, contribution from a full year of aluminum slug sales and improved pricing and sales mix, partially offset by lower sales volumes of $16 million and unfavorable manufacturing performance due to higher fourth quarter 2011 production curtailments.

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Aerospace and Technologies

($ in millions)	Years Ended December 31, 2012	2011	2010
Net sales	$ 876.8	$ 784.6	$ 713.7
Segment earnings	$ 86.6	$ 79.6	$ 69.8
Business consolidation and other activities *(a)*	(1.9)		
Total segment earnings	$ 84.7	$ 79.6	$ 69.8
Segment earnings before business consolidation costs as a % of segment net sales	9.9%	10.1%	9.8%

(a) Further details of these items are included in Note 5 to the consolidated financial statements within Item 8 of this annual report.

The aerospace and technologies segment consists of the manufacture and sale of aerospace and other related products and services provided for the defense, civil space and commercial space industries.

Segment sales in 2012 increased $92.2 million compared to 2011 primarily due to higher sales from U.S. national defense contracts. Segment earnings in 2012 compared to 2011 increased $7.0 million as a result of continued strong program performance and higher sales.

Segment sales in 2011 increased $70.9 million compared to 2010 primarily due to higher sales from U.S. national defense contracts and existing commercial programs, partially offset by lower sales from civil space programs. Segment earnings in 2011 increased $9.8 million as compared to 2010, due to increased sales, improved performance on fixed-price contracts and better award fees on several of our large cost plus contracts.

Sales to the U.S. government, either directly as a prime contractor or indirectly as a subcontractor, represented 90 percent of segment sales in 2012, 87 percent in 2011 and 96 percent in 2010. Contracted backlog for the aerospace and technologies segment at December 31, 2012 and 2011, was $1.0 billion and $897 million, respectively. Comparisons of backlog are not necessarily indicative of the trend of future operations due to the nature of varying delivery and milestone schedules on contracts and the funding of programs.

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Discontinued Operations Plastic Packaging, Americas

In August 2010, we completed the sale of our plastics packaging, Americas, business to Amcor Limited and received proceeds of $258.7 million, which included $15 million of contingent consideration recognized at closing and was net of post-closing adjustments of $21.3 million. The sale of our plastics packaging business included five U.S. facilities that manufactured polyethylene terephthalate (PET) bottles and preforms and polypropylene bottles, as well as associated customer contracts and other related assets.

The following table summarizes the operating results for discontinued operations:

	Years Ended December 31,		
($ in millions)	**2012**	**2011**	**2010**
Net sales	$	$	$ 318.5
Business consolidation and other activities	$ (4.5)	$ (3.0)	$ (10.4)
Gain (loss) on sale of business		(0.8)	8.6
Loss on asset impairment			(107.1)
Earnings from operations			3.5
Tax benefit	1.7	1.5	30.5
Discontinued operations, net of tax	$ (2.8)	$ (2.3)	$ (74.9)

Additional Segment Information

For additional information regarding our segments, see the business segment information in Note 2 accompanying the consolidated financial statements within Item 8 of this annual report. The charges recorded for business consolidation activities were based on estimates by Ball management and were developed from information available at the time. If actual outcomes vary from the estimates, the differences will be reflected in current period earnings in the consolidated statement of earnings and identified as business consolidation gains and losses. Additional details about our business consolidation activities and associated costs are provided in Note 5 accompanying the consolidated financial statements within Item 8 of this annual report.

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FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Capital Expenditures

Our primary sources of liquidity are cash provided by operating activities and external committed borrowings. We believe that cash flows from operations and cash provided by short-term and committed revolver borrowings, when necessary, will be sufficient to meet our ongoing operating requirements, scheduled principal and interest payments on debt, dividend payments and anticipated capital expenditures. The following summarizes our cash flows:

	Years Ended December 31,		
($ in millions)	**2012**	**2011**	**2010**
Cash flows provided by (used in) operating activities	$ 853.2	$ 948.4	$ 515.2
Cash flows provided by (used in) investing activities	(356.0)	(738.0)	(110.2)
Cash flows provided by (used in) financing activities	(486.9)	(216.8)	(459.6)

Lower operating cash flows in 2012 compared to 2011 were primarily due to approximately $90 million higher U.S. pension funding. Working capital changes in 2012 were primarily related to higher days payable outstanding and more effective inventory management, partially offset by higher days sales outstanding. Days payable outstanding increased from 42 days to 47 days, inventory days on hand decreased from 53 days to 51 days and days sales outstanding increased from 36 days to 37 days.

In the fourth quarter of 2012, the company entered into an accounts receivable factoring program with a financial institution for certain receivables of the company. The program is considered a true sale of the receivables and has a limit of $90 million, of which $75 million was sold as of December 31, 2012.

Cash flows provided by operating activities in 2010 included a working capital outflow of $250 million related to a change in accounting for our accounts receivable securitization program, which was effective January 1, 2010. Higher operating cash flows in 2011 compared to 2010 (excluding the accounting change) were due primarily to higher earnings before interest and taxes, favorable working capital changes, the consolidation of Latapack-Ball and lower pension funding. The favorable working capital changes in 2011 were primarily related to lower days sales outstanding, higher days payable outstanding and more effective inventory management. Days sales outstanding decreased from 38 days to 36 days, days payable outstanding increased from 39 days to 42 days and inventory days on hand decreased from 61 days to 53 days.

Annual cash dividends paid on common stock were 40 cents per share in 2012, 28 cents per share in 2011 and 20 cents per share in 2010. Total dividends paid were $61.8 million in 2012, $45.7 million in 2011 and $35.8 million in 2010. On January 30, 2013, the company s board of directors approved an increase in the quarterly dividend to 13 cents per share beginning with the March 15, 2013, payment date.

Share Repurchases

The company s share repurchases, net of issuances, totaled $494.1 million in 2012, $473.9 million in 2011 and $506.7 million in 2010. The repurchases were completed using cash on hand and available borrowings and included accelerated share repurchase agreements and other purchases under our ongoing share repurchase program. Additional details about our share repurchase activities are provided in Note 15 accompanying the consolidated financial statements within Item 8 of this annual report.

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Debt Facilities and Refinancing

The senior credit facilities bear interest at variable rates and include a $125 million Term A loan denominated in U.S. dollars, a £46.5 million Term B loan denominated in British sterling and a 91.3 million Term C loan denominated in euros. The facilities also include a long-term, multi-currency committed revolving credit facility that provides the company with up to the U.S. dollar equivalent of $1 billion.

Total interest-bearing debt of $3.3 billion at December 31, 2012, was slightly higher than the amount outstanding at December 31, 2011, of $3.1 billion.

On March 9, 2012, Ball issued $750 million of 5.00 percent senior notes due in March 2022. On the same date, the company tendered for the redemption of its 6.625 percent senior notes originally due in March 2018 in the amount of $450 million, at a redemption price per note of 102.583 percent of the outstanding principal amount plus accrued interest. The company redeemed $392.7 million during the first quarter of 2012, and the remaining $57.3 million was redeemed during the second quarter. The redemption of the bonds resulted in a charge of $15.1 million for the call premium and the write off of unamortized financing costs and premiums. The charge is included as a component of interest expense in the consolidated statement of earnings.

In November 2010, Ball issued $500 million of new 5.75 percent senior notes due in May 2021, and in March 2010, Ball issued $500 million of new 6.75 percent senior notes due in September 2020. On April 21, 2010, the company redeemed $509 million of 6.875 percent senior notes due December 2012 at a redemption price of 101.146 percent of the outstanding principal amount plus accrued interest. The redemption resulted in a charge of $8.1 million for the call premium and the write off of unamortized financing costs and unamortized premiums. An additional $0.7 million of charges were recorded in connection with the refinancing of the company s senior credit facilities in 2010. The charges are included as a component of interest expense in the consolidated statement of earnings.

In August 2011, the company entered into an accounts receivable securitization agreement for a term of three years, which was amended in September 2012. The maximum the company can borrow under this agreement may vary between $110 million and $235 million depending on the seasonal accounts receivable balances in the company s North American packaging businesses. Prior to the amendment, the maximum borrowings could vary between $150 million and $275 million. At December 31, 2012, there were no outstanding amounts under the securitization agreement. There were no accounts receivable sold at December 31, 2012. At December 31, 2011, $231.0 million of accounts receivable were sold under this agreement. Borrowings under the securitization agreement are included within the short-term debt and current portion of long-term debt line on the balance sheet.

At December 31, 2012, taking into account outstanding letters of credit, approximately $773 million was available under the company s committed multi-currency revolving credit facilities. In addition to these long-term committed credit facilities, the company had approximately $614 million of short-term uncommitted credit facilities available at the end of 2012, of which $115.7 million was outstanding and due on demand.

Given our free cash flow projections and unused credit facilities that are available until December 2015, our liquidity is strong and is expected to meet our ongoing cash and debt service requirements. While ongoing financial and economic conditions raise concerns about credit risk with counterparties to derivative transactions, the company mitigates its exposure by spreading the risk among various counterparties and limiting

exposure to any one party. We also monitor the credit ratings of our suppliers, customers, lenders and counterparties on a regular basis.

We were in compliance with all loan agreements at December 31, 2012, and all prior years presented, and have met all debt payment obligations. The U.S. note agreements and bank credit agreement contain certain restrictions relating to dividends, investments, financial ratios, guarantees and the incurrence of additional indebtedness. Additional details about our debt and receivables sales agreements are available in Note 12, accompanying the consolidated financial statements within Item 8 of this annual report.

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Other Liquidity Measures

Management Performance Measures

Management internally uses various measures to evaluate company performance such as return on average invested capital (net operating earnings after tax over the relevant performance period divided by average invested capital over the same period); economic value added (EVA®) dollars (net operating earnings after tax less a capital charge on average invested capital employed); earnings before interest and taxes (EBIT); earnings before interest, taxes, depreciation and amortization (EBITDA); diluted earnings per share; cash flow from operating activities and free cash flow (generally defined by the company as cash flow from operating activities less capital expenditures). We believe this information is also useful to investors as it provides insight into the earnings and cash flow criteria management uses to make strategic decisions. These financial measures may be adjusted at times for items that affect comparability between periods such as business consolidation costs and gains or losses on acquisitions and dispositions, outlined in the following calculations below.

The following financial measurements are on a non-U.S. GAAP basis and should be considered in connection with the consolidated financial statements within Item 8 of this report. Non-U.S. GAAP measures should not be considered in isolation and should not be considered superior to, or a substitute for, financial measures calculated in accordance with U.S. GAAP. A presentation of earnings in accordance with U.S. GAAP is available in Item 8 of this annual report.

Based on the above definitions, our calculation of comparable EBIT is summarized below:

	Years Ended December 31,		
($ in millions)	**2012**	**2011**	**2010**
Earnings before taxes, as reported	$ 595.6	$ 659.8	$ 606.4
Total interest expense	194.9	177.1	158.2
Earnings before interest and taxes (EBIT)	790.5	836.9	764.6
Business consolidation and other activities	102.8	30.3	(11.0)
Comparable EBIT	$ 893.3	$ 867.2	$ 753.6

Our calculations of comparable EBITDA, the comparable EBIT to interest coverage ratio and the net debt to comparable EBITDA ratio are summarized below:

	Years Ended December 31,		
($ in millions, except ratios)	**2012**	**2011**	**2010**
Comparable EBIT (as calculated above)	$ 893.3	$ 867.2	$ 753.6
Add depreciation and amortization	282.9	301.1	265.5
Comparable EBITDA	$ 1,176.2	$ 1,168.3	$ 1,019.1
Interest expense	$ 179.8	$ 177.1	$ 149.4

Total debt at December 31, 2012	$ 3,305.1	$ 3,144.1	$ 2,812.3
Less cash and cash equivalents	(174.1)	(165.8)	(152.0)
Net debt	$ 3,131.0	$ 2,978.3	$ 2,660.3
Comparable EBIT/Interest Expense	5.0x	4.9x	5.0x
Net debt/Comparable EBITDA	2.7x	2.5x	2.6x

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Our calculation of comparable net earnings is summarized below:

($ in millions, except per share amounts)	Years Ended December 31, 2012	2011	2010
Net earnings attributable to Ball Corporation, as reported	$ 403.5	$ 444.0	$ 468.0
Discontinued operations, net of tax	2.8	2.3	74.9
Business consolidation and other activities, net of tax	67.5	22.5	(9.3)
Equity earnings and gains related to acquisitions, net of tax		(9.2)	(105.9)
Debt refinancing costs, net of tax	9.2		5.3
Net earnings attributable to Ball Corporation before above transactions (Comparable Earnings)	$ 483.0	$ 459.6	$ 433.0
Per diluted share from continuing operations, as reported	$ 2.57	$ 2.64	$ 2.96
Per diluted share (comparable basis)	$ 3.06	$ 2.73	$ 2.36

Free Cash Flow

Management internally uses a free cash flow measure: (1) to evaluate the company s operating results, (2) to evaluate strategic investments, (3) to plan stock buyback and dividend levels and (4) to evaluate the company s ability to incur and service debt. Free cash flow is not a defined term under U.S. GAAP, and it should not be inferred that the entire free cash flow amount is available for discretionary expenditures. The company defines free cash flow as cash flow from operating activities less capital expenditures. Free cash flow is typically derived directly from the company s consolidated statement of cash flows; however, it may be adjusted for items that affect comparability between periods.

Based on the above definition, our consolidated free cash flow is summarized as follows:

($ in millions)	Years Ended December 31, 2012	2011	2010
Total cash provided by operating activities	$ 853.2	$ 948.4	$ 515.2
Adjust for increase in accounts receivable due to change in accounting for securitization program			250.0
Capital expenditures, including discontinued operations	(305.0)	(443.8)	(259.4)
Free cash flow	$ 548.2	$ 504.6	$ 505.8

Based on information currently available, we estimate cash flows from operating activities for 2013 to be in the range of $850 million, capital expenditures to be approximately $400 million and free cash flow to be in the range of $450 million. In 2013, we intend to utilize our operating cash flow to fund our stock repurchases, dividend payments, growth capital projects and, to the extent available, acquisitions that meet our various criteria. Of the total 2013 estimated capital expenditures, approximately $188 million was contractually committed as of December 31, 2012.

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Commitments

Cash payments required for long-term debt maturities, rental payments under noncancellable operating leases, purchase obligations and other commitments in effect at December 31, 2012, are summarized in the following table:

		Payments Due By Period (a)			
($ in millions)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt, including capital leases	$ 3,198.9	$ 104.1	$ 580.4	$ 428.2	$ 2,086.2
Interest payments on long-term debt *(b)*	1,152.4	168.4	332.0	265.8	386.2
Operating leases	90.9	35.3	38.4	10.8	6.4
Purchase obligations *(c)*	6,308.9	2,411.0	2,316.0	1,581.9	
Total payments on contractual obligations	$ 10,751.1	$ 2,718.8	$ 3,266.8	$ 2,286.7	$ 2,478.8

(a) Amounts reported in local currencies have been translated at year-end 2012 exchange rates.

(b) For variable rate facilities, amounts are based on interest rates in effect at year end and do not contemplate the effects of any hedging instruments utilized by the company.

(c) The company s purchase obligations include contracted amounts for aluminum, steel and other direct materials. Also included are commitments for purchases of natural gas and electricity, expenses related to aerospace and technologies contracts and other less significant items. In cases where variable prices and/or usage are involved, management s best estimates have been used. Depending on the circumstances, early termination of the contracts may or may not result in penalties and, therefore, actual payments could vary significantly.

The table above does not include $87.0 million of uncertain tax positions, the timing of which is unknown at this time.

Contributions to the company s defined benefit pension plans, not including the unfunded German plans, are expected to be in the range of $95 million in 2013, of which approximately $80 million was contributed in January 2013. This estimate may change based on changes in the Pension Protection Act and actual plan asset performance, among other factors. Benefit payments related to these plans are expected to be $84.9 million, $79.3 million, $83.1 million, $86.4 million and $90.6 million for the years ending December 31, 2013 through 2017, respectively, and a total of $506.7 million for the years 2018 through 2022. Payments to participants in the unfunded German plans are expected to be between $21 million (16 million) and $23 million (17 million) in each of the years 2013 through 2017 and a total of $99 million (75 million) for the years 2018 through 2022.

For the U.S. pension plans in 2013, we revised our return on asset assumption to 7.625 percent (from 7.75 percent in 2012) and our discount rate assumption to 4.125 percent (from 4.75 percent in 2012). Based on these changes in assumptions and revisions based on plan experience studies, U.S. pension expense in 2013 is anticipated to be approximately $5.5 million higher than in 2012. A reduction of the expected return on pension assets assumption by one quarter of a percentage point would result in an estimated $3.2 million increase in the 2013 global pension expense, while a quarter of a percentage point reduction in the discount rate applied to the pension liability would result in an estimated $5.5 million of additional pension expense in 2013. Additional information regarding the company s pension plans is provided in Note 14 accompanying the

consolidated financial statements within Item 8 of this annual report.

Due to the U.S. tax status of certain of Ball s subsidiaries in Canada and the PRC, the company annually provides U.S. taxes on foreign earnings in those subsidiaries, net of any estimated foreign tax credits. In 2010, Ball increased its economic interest in its Brazilian joint venture, and due to the nature of the investment, Ball provides deferred taxes on the portion of undistributed earnings of the Brazil investment related to this incremental investment. Net U.S. taxes provided for Brazil, Canada and PRC earnings in 2012, 2011 and 2010 were $18.7 million, $17.7 million and $13.4 million, respectively. For the foreseeable future, anticipated cash flow from the U.S. operations should be sufficient to meet the domestic operational needs, including capital expenditures, dividends, share repurchases and debt service, including minimal near term debt maturities over the next few years. Should domestic cash flow gaps arise due to unforeseen events, Ball can access funds in the U.S. to bridge those gaps from its committed revolving credit facility, from public bond markets, from cash deposits in the PRC on earnings for which U.S. taxes have been provided and from repayment of outstanding U.S. loans to foreign subsidiaries. Consequently, management s intention is to indefinitely reinvest undistributed earnings of Ball s remaining foreign investments and, as a result, no U.S. income or federal withholding tax provision has been made. It is not practical to estimate the additional taxes that may become payable upon the eventual remittance of these foreign earnings; however, repatriation of these earnings would result in a relatively high incremental tax rate.

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Contingencies

The company is routinely subject to litigation incident to operating its businesses, and has been designated by various federal and state environmental agencies as a potentially responsible party, along with numerous other companies, for the cleanup of several hazardous waste sites. The company believes that the matters identified will not have a material adverse effect upon the liquidity, results of operations or financial condition of the company. Details of the company s legal proceedings are included in Note 21 to the consolidated financial statements within Item 8 of this annual report.

CRITICAL AND SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

For information regarding the company s critical and significant accounting policies, as well as recent accounting pronouncements, see Note 1 to the consolidated financial statements within Item 8 of this annual report.

FORWARD-LOOKING STATEMENTS

The company has made or implied certain forward-looking statements in this report which are made as of the end of the time frame covered by this report. These forward-looking statements represent the company s goals, and results could vary materially from those expressed or implied. From time to time we also provide oral or written forward-looking statements in other materials we release to the public. As time passes, the relevance and accuracy of forward-looking statements may change. Some factors that could cause the company s actual results or outcomes to differ materially from those discussed in the forward-looking statements include, but are not limited to: fluctuation in customer and consumer growth, demand and preferences; loss of one or more major customers or changes to contracts with one or more customers; insufficient production capacity; changes in senior management; the ongoing global recession and its effects on liquidity, credit risk, asset values and the economy; overcapacity in foreign and domestic metal container industry production facilities and its impact on pricing; failure to achieve anticipated productivity improvements or production cost reductions, including those associated with capital expenditures; changes in climate and weather; fruit, vegetable and fishing yields; power and natural resource costs; difficulty in obtaining supplies and energy, such as gas, electric power and diesel fuel; availability and cost of raw materials, as well as the increases in steel, aluminum and energy costs, and the ability or inability to include or pass on to customers changes in raw material costs; changes in the pricing of the company s products and services; competition in pricing and the possible decrease in, or loss of, sales resulting therefrom; insufficient or reduced cash flow; the number and timing of the purchases of the company s common shares; the effects of restrictive legislation, including with respect to packaging, such as recycling laws; interest rates affecting our debt; labor strikes; increases and trends in various employee benefits and labor costs, including pension, medical and health care costs; rates of return projected and earned on assets and discount rates used to measure future obligations and expenses of the company s defined benefit retirement plans; antitrust, intellectual property, consumer and other litigation; maintenance and capital expenditures; goodwill impairment; changes in generally accepted accounting principles or their interpretation; the authorization, funding, availability and returns of contracts for the aerospace and technologies segment and the nature and continuation of those contracts and related services provided thereunder; delays, extensions and technical uncertainties, as well as schedules of performance associated with such segment contracts; political and economic instability, including periodic sell-off on global equity markets, sanctions and the devaluation or revaluation of certain currencies; business risks with respect to changes in currency exchange rates; terrorist activity or war that disrupts the company s production or supply; regulatory action or laws affecting the company or its customers or suppliers, or any of their respective products, including tax, environmental, health and workplace safety, including in respect of climate change, or chemicals or substances used in raw materials or in the manufacturing process, particularly publicity concerning Bisphenol-A, or BPA, a chemical used in the manufacture of epoxy coatings applied to many types of containers (including certain of those produced by the company); technological developments and innovations; successful or unsuccessful acquisitions, joint ventures or divestitures and the integration activities associated therewith; changes to unaudited results due to statutory audits of our financial statements or management s evaluation of the company s internal control over financial reporting; ongoing uncertainties surrounding sovereign debt of various European countries, as well as ratings agency downgrades of various

government s debt; and loss contingencies related to income and other tax matters, including those arising from audits performed by national and local tax authorities. If the company is unable to achieve its goals, then the company s actual performance could vary materially from those goals expressed or implied in the forward-looking statements. The company currently does not intend to publicly update forward-looking statements except as it deems necessary in quarterly or annual earnings reports. You are advised, however, to consult any further disclosures we make on related subjects in our Forms 10-K, 10-Q and 8-K reports to the SEC.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Financial Instruments and Risk Management

The company employs established risk management policies and procedures, which seek to reduce the company s exposure to fluctuations in commodity prices, interest rates, currency exchange rates and prices of the company s common stock with regard to common share repurchases and the company s deferred compensation stock plan. However, there can be no assurance that these policies and procedures will be successful. Although the instruments utilized involve varying degrees of credit, market and interest risk, the counterparties to the agreements are expected to perform fully under the terms of the agreements. The company monitors counterparty credit risk, including lenders, on a regular basis, but Ball cannot be certain that all risks will be discerned or that its risk management policies and procedures will always be effective. Further details are available in Note 18 to the consolidated financial statements within Item 8 of this annual report.

We have estimated our market risk exposure using sensitivity analysis. Market risk exposure has been defined as the changes in fair value of derivative instruments, financial instruments and commodity positions. To test the sensitivity of our market risk exposure, we have estimated the changes in fair value of market risk sensitive instruments assuming a hypothetical 10 percent adverse change in market prices or rates. The results of the sensitivity analyses are summarized below.

Commodity Price Risk

Aluminum

We manage commodity price risk in connection with market price fluctuations of aluminum ingot through two different methods. First, we enter into container sales contracts that include aluminum ingot-based pricing terms that generally reflect the same price fluctuations included in commercial purchase contracts for aluminum sheet. The terms include fixed, floating or pass-through aluminum ingot component pricing. Second, we use derivative instruments such as option and forward contracts as economic and cash flow hedges of commodity price risk where there is not an arrangement in the sales contract to match underlying purchase volumes and pricing with sales volumes and pricing.

Steel

Most sales contracts involving our steel products either include provisions permitting us to pass through some or all steel cost changes incurred, or they incorporate annually negotiated steel prices. We anticipate at this time that we will be able to pass through the majority of any steel price changes that may occur in 2013.

Considering the effects of derivative instruments, the company s ability to pass through certain raw material costs through contractual provisions, the market s ability to accept price increases and the company s commodity price exposures under its contract terms, a hypothetical 10 percent adverse change in the company s steel and aluminum prices could result in an estimated $5.7 million after-tax reduction in net earnings over a one-year period. Additionally, the company has currency exposures on raw materials, and the effect of a 10 percent adverse change is included in the total currency exposure discussed below. Actual results may vary based on actual changes in market prices and rates.

The company is also exposed to fluctuations in prices for natural gas and electricity, as well as the cost of diesel fuel as a component of freight cost. A hypothetical 10 percent increase in our natural gas and electricity prices could result in an estimated $7.4 million after-tax reduction of net earnings over a one-year period. A hypothetical 10 percent increase in diesel fuel prices could result in an estimated $0.6 million after-tax reduction of net earnings over the same period. Actual results may vary based on actual changes in market prices and rates.

Interest Rate Risk

Our objective in managing exposure to interest rate changes is to manage the impact of interest rate changes on earnings and cash flows and to minimize our overall borrowing costs. To achieve these objectives, we may use a variety of interest rate swaps, collars and options to manage our mix of floating and fixed-rate debt. Interest rate instruments held by the company at December 31, 2012, included pay-fixed interest rate swaps, which effectively convert variable rate obligations to fixed-rate instruments.

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Based on our interest rate exposure at December 31, 2012, assumed floating rate debt levels throughout the next 12 months and the effects of derivative instruments, a 100-basis point increase in interest rates could result in an estimated $5.4 million after-tax reduction in net earnings over a one-year period. Actual results may vary based on actual changes in market prices and rates and the timing of these changes.

Currency Exchange Rate Risk

Our objective in managing exposure to currency fluctuations is to limit the exposure of cash flows and earnings from changes associated with currency exchange rate changes through the use of various derivative contracts. In addition, at times Ball manages earnings translation volatility through the use of currency option strategies, and the change in the fair value of those options is recorded in the company s net earnings. Our currency translation risk results from the currencies in which we transact business. We face currency exposures in our global operations as a result of selling our products in local currency, purchasing raw materials in U.S. dollars and, to a lesser extent, in other currencies. Sales contracts are negotiated with customers to reflect cost changes and, where there is not an exchange pass-through arrangement, the company uses forward and option contracts to manage currency exposures.

Considering the company s derivative financial instruments outstanding at December 31, 2012, currency exposures and currency exposures from the purchase and sale of raw materials, a hypothetical 10 percent reduction (U.S. dollar strengthening) in currency exchange rates compared to the U.S. dollar could result in an estimated $32.1 million after-tax reduction in net earnings over a one-year period. This hypothetical adverse change in currency exchange rates would also reduce our forecasted average debt balance by $30.6 million. Actual changes in market prices or rates may differ from hypothetical changes.

Common Stock Price Risk

The company s deferred compensation stock program is subject to variable plan accounting and, accordingly, is marked to fair value using the company s closing stock price at the end of a reporting period. Based on current share levels in the program, each $1 change in the company s stock price has an impact of $1.6 million on pretax earnings. During March and September 2011, the company entered into total return swaps to mitigate the company s exposure to these fair value fluctuations, which were renewed in January 2012 and July 2012 and will be outstanding until March 2013 and September 2013, respectively. The swaps have a notional value of 1 million shares and 500,000 shares, respectively.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Ball Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under 15(a)(1) present fairly, in all material respects, the financial position of Ball Corporation and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for securitizations in 2010.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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 controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Denver, Colorado
February 22, 2013

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Consolidated Statements of Earnings

Ball Corporation and Subsidiaries

	Years Ended December 31,		
($ in millions, except per share amounts)	**2012**	**2011**	**2010**
Net sales	$ 8,735.7	$ 8,630.9	$ 7,630.0
Costs and expenses			
Cost of sales (excluding depreciation and amortization)	(7,174.0)	(7,081.2)	(6,254.1)
Depreciation and amortization	(282.9)	(301.1)	(265.5)
Selling, general and administrative	(385.5)	(381.4)	(356.8)
Business consolidation and other activities	(102.8)	(30.3)	11.0
	(7,945.2)	(7,794.0)	(6,865.4)
Earnings before interest and taxes	790.5	836.9	764.6
Interest expense	(179.8)	(177.1)	(149.4)
Debt refinancing costs	(15.1)		(8.8)
Total interest expense	(194.9)	(177.1)	(158.2)
Earnings before taxes	595.6	659.8	606.4
Tax provision	(165.0)	(201.3)	(175.8)
Equity in results of affiliates, net of tax	(1.3)	10.1	118.0
Net earnings from continuing operations	429.3	468.6	548.6
Discontinued operations, net of tax	(2.8)	(2.3)	(74.9)
Net earnings	426.5	466.3	473.7
Less net earnings attributable to noncontrolling interests	(23.0)	(22.3)	(5.7)
Net earnings attributable to Ball Corporation	$ 403.5	$ 444.0	$ 468.0
Amounts attributable to Ball Corporation:			
Continuing operations	$ 406.3	$ 446.3	$ 542.9
Discontinued operations	(2.8)	(2.3)	(74.9)
Net earnings	$ 403.5	$ 444.0	$ 468.0
Earnings per share:			
Basic - continuing operations	$ 2.63	$ 2.70	$ 3.00
Basic - discontinued operations	(0.02)	(0.01)	(0.41)
Total basic earnings per share	$ 2.61	$ 2.69	$ 2.59
Diluted - continuing operations	$ 2.57	$ 2.64	$ 2.96
Diluted - discontinued operations	(0.02)	(0.01)	(0.41)
Total diluted earnings per share	$ 2.55	$ 2.63	$ 2.55
Weighted average shares outstanding *(000s)***:**			
Basic	154,648	165,275	180,746
Diluted	158,084	168,590	183,538
Cash dividends declared and paid, per share	$ 0.40	$ 0.28	$ 0.20

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

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Consolidated Statements of Comprehensive Earnings

Ball Corporation and Subsidiaries

	Years Ended December 31,		
Net earnings	$ 426.5	$ 466.3	$ 473.7
Other comprehensive earnings:			
Foreign currency translation adjustment	32.9	(38.1)	(57.1)
Pension and other postretirement benefits *(a)*	(79.5)	(93.7)	(13.4)
Effective financial derivatives *(b)*	29.1	(110.8)	49.0
Mark-to-market adjustments on available for sale securities *(c)*		(10.2)	3.2
Total comprehensive earnings	409.0	213.5	455.4
Less comprehensive earnings attributable to noncontrolling interests	(22.7)	(22.6)	(5.7)
Comprehensive earnings attributable to Ball Corporation	$ 386.3	$ 190.9	$ 449.7

(a) Net of tax of $40.1 million, $56.3 million and $2.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

(b) Net of tax of $(22.3) million, $58.2 million and $(24.1) million for the years ended December 31, 2012, 2011 and 2010, respectively.

(c) Net of tax of $(6.6) million and $(2.0) million for the years ended December 31, 2011 and 2010.

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

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Consolidated Balance Sheets

Ball Corporation and Subsidiaries

($ in millions)	December 31, 2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 174.1	$ 165.8
Receivables, net	930.1	910.4
Inventories, net	1,044.4	1,072.5
Deferred taxes and other current assets	190.8	173.2
Total current assets	2,339.4	2,321.9
Non-current assets		
Property, plant and equipment, net	2,288.6	2,220.2
Goodwill	2,359.4	2,247.1
Intangibles and other assets, net	519.7	495.4
Total assets	**$ 7,507.1**	**$ 7,284.6**
Liabilities and Shareholders Equity		
Current liabilities		
Short-term debt and current portion of long-term debt	$ 219.8	$ 447.4
Accounts payable	946.9	847.3
Accrued employee costs	278.4	248.3
Other current liabilities	240.7	313.1
Total current liabilities	1,685.8	1,856.1
Non-current liabilities		
Long-term debt	3,085.3	2,696.7
Employee benefit obligations	1,238.1	1,143.7
Deferred taxes and other liabilities	207.9	210.1
Total liabilities	6,217.1	5,906.6
Shareholders equity		
Common stock (329,014,589 shares issued - 2012; 327,003,933 shares issued - 2011)	1,026.3	941.7
Retained earnings	3,580.8	3,228.3
Accumulated other comprehensive earnings (loss)	(352.4)	(335.2)
Treasury stock, at cost (179,285,288 shares - 2012; 166,688,309 shares - 2011)	(3,140.1)	(2,615.7)
Total Ball Corporation shareholders equity	1,114.6	1,219.1
Noncontrolling interests	175.4	158.9
Total shareholders equity	1,290.0	1,378.0
Total liabilities and shareholders equity	**$ 7,507.1**	**$ 7,284.6**

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

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Consolidated Statements of Cash Flows

Ball Corporation and Subsidiaries

($ in millions)	Years Ended December 31, 2012	2011	2010
Cash Flows from Operating Activities			
Net earnings	$ 426.5	$ 466.3	$ 473.7
Discontinued operations, net of tax	2.8	2.3	74.9
Adjustments to reconcile net earnings to cash provided by (used in) continuing operating activities:			
Depreciation and amortization	282.9	301.1	265.5
Equity earnings and gains related to acquisitions		(10.1)	(118.0)
Business consolidation and other activities	102.8	30.3	(11.0)
Deferred tax provision	14.0	28.4	(28.7)
Other, net	(25.3)	74.8	77.7
Working capital changes, excluding effects of acquisitions:			
Receivables	0.6	(4.1)	(287.0)
Inventories	29.1	27.5	(153.1)
Other current assets	1.5	34.8	49.2
Accounts payable	55.9	111.1	68.8
Accrued employee costs	10.5	(20.4)	39.6
Other current liabilities	(55.8)	(54.8)	5.6
Other, net	12.8	(30.5)	43.1
Cash provided by (used in) continuing operating activities	858.3	956.7	500.3
Cash provided by (used in) discontinued operating activities	(5.1)	(8.3)	14.9
Total cash provided by (used in) operating activities	853.2	948.4	515.2
Cash Flows from Investing Activities			
Capital expenditures	(305.0)	(443.8)	(250.2)
Business acquisitions, net of cash acquired	(71.2)	(295.2)	(62.0)
Acquisitions of equity affiliates, net of cash acquired			(63.8)
Proceeds from dispositions, net of cash sold			261.5
Other, net	20.2	1.0	13.5
Cash provided by (used in) continuing investing activities	(356.0)	(738.0)	(101.0)
Cash provided by (used in) discontinued investing activities			(9.2)
Total cash provided by (used in) investing activities	(356.0)	(738.0)	(110.2)
Cash Flows from Financing Activities			
Long-term borrowings	1,486.4	827.3	2,231.6
Repayments of long-term borrowings	(1,071.6)	(815.8)	(2,144.9)
Net change in short-term borrowings	(337.0)	295.3	15.1
Proceeds from issuances of common stock	53.1	39.3	47.5
Acquisitions of treasury stock	(547.2)	(513.2)	(554.2)
Common dividends	(61.8)	(45.7)	(35.8)
Other, net	(8.8)	(4.0)	(18.9)
Cash provided by (used in) financing activities	(486.9)	(216.8)	(459.6)
Effect of exchange rate changes on cash	(2.0)	20.2	(4.0)
Change in cash and cash equivalents	8.3	13.8	(58.6)
Cash and cash equivalents - beginning of year	165.8	152.0	210.6
Cash and cash equivalents - end of year	$ **174.1**	$ **165.8**	$ **152.0**

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

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Consolidated Statements of Shareholders Equity

Ball Corporation and Subsidiaries

	Ball Corporation and Subsidiaries							
	Common Stock		Treasury Stock			Accumulated Other		Total
($ in millions; share amounts in thousands)	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Comprehensive Income (Loss)	Noncontrolling Interest	Shareholders Equity
Balance at December 31, 2009	323,027	$ 830.8	(134,985)	$ (1,582.8)	$ 2,397.1	$ (63.8)	$ 1.7	$ 1,583.0
Net earnings					468.0		5.7	473.7
Other comprehensive earnings, net of tax						(18.3)		(18.3)
Common dividends, net of tax benefits					(35.3)			(35.3)
Treasury stock purchases			(18,957)	(559.3)				(559.3)
Treasury shares reissued			677	19.0				19.0
Shares issued and stock compensation for stock options and other stock plans, net of shares exchanged	2,396	49.9						49.9
Tax benefit on option exercises		12.7						12.7
Acquisition of equity affiliate							132.9	132.9
Other activity							(0.2)	(0.2)
Balance at December 31, 2010	325,423	893.4	(153,265)	(2,123.1)	2,829.8	(82.1)	140.1	1,658.1
Net earnings					444.0		22.3	466.3
Other comprehensive earnings, net of tax						(253.1)	0.3	(252.8)
Common dividends, net of tax benefits					(45.5)			(45.5)
Treasury stock purchases			(13,998)	(513.3)				(513.3)
Treasury shares reissued			575	20.7				20.7
Shares issued and stock compensation for stock options and other stock plans, net of shares exchanged	1,581	42.7						42.7
Tax benefit on option exercises		5.6						5.6
Acquisition of equity affiliate							6.0	6.0
Dividends paid to noncontrolling interest							(9.8)	(9.8)
Balance at December 31, 2011	327,004	941.7	(166,688)	(2,615.7)	3,228.3	(335.2)	158.9	1,378.0
Net earnings					403.5		23.0	426.5
Other comprehensive earnings, net of tax						(17.2)	(0.3)	(17.5)
Common dividends, net of tax benefits					(60.3)			(60.3)
Treasury stock purchases			(13,148)	(547.1)				(547.1)
Treasury shares reissued			551	22.7				22.7
Shares issued and stock compensation for stock options and other stock plans, net of shares exchanged	2,011	63.3						63.3
Tax benefit on option exercises		21.3						21.3
Dividends paid to noncontrolling interests							(7.6)	(7.6)
Other activity					9.3		1.4	10.7
Balance at December 31, 2012	329,015	$ 1,026.3	(179,285)	$ (3,140.1)	$ 3,580.8	$ (352.4)	$ 175.4	$ 1,290.0

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

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Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies

The preparation of the company s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires Ball s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. These estimates are based on historical experience and various assumptions believed to be reasonable under the circumstances. Ball s management evaluates these estimates on an ongoing basis and adjusts or revises the estimates as circumstances change. As future events and their impacts cannot be determined with precision, actual results may differ from these estimates. In the opinion of management, the financial statements reflect all adjustments necessary to fairly present the results of the periods presented.

Critical Accounting Policies

The company considers certain accounting policies to be critical, as their application requires management s judgment about the impacts of matters that are inherently uncertain. Detailed below is a discussion of the accounting policies the company considers critical to our consolidated financial statements.

Acquisitions

The company records acquisitions resulting in the consolidation of an enterprise using the purchase method of accounting. Under this method, the acquiring company records the assets acquired, including intangible assets that can be identified and named, and liabilities assumed based on their estimated fair values at the date of acquisition. The purchase price in excess of the fair value of the net assets and liabilities is recorded as goodwill. If the assets acquired are greater than the purchase price paid then a bargain purchase has occurred and the company will recognize the gain immediately in earnings. Among other sources of relevant information, the company uses independent appraisals and actuarial or other valuations to assist in determining the estimated fair values of the assets and liabilities. Transaction costs associated with acquisitions are expensed as incurred and included in the business consolidation and other activities line of the consolidated statement of earnings.

For acquisitions where the company already owns an equity investment in the target company, the company will recognize in earnings, upon the completion of the acquisition, a gain or loss related to the company s existing equity investment. This gain or loss is calculated based on the fair value of the equity investment as compared to the carrying value of the investment on the date of acquisition.

Exit and Other Closure Costs (Business Consolidation Costs)

The company estimates its liabilities for business closure activities by accumulating detailed estimates of costs and asset sale proceeds, if any, for each business consolidation initiative. This includes the estimated costs of employee severance, pension and related benefits; impairment of property and equipment and other assets, including estimates of net realizable value; accelerated depreciation; termination payments for contracts and leases; contractual obligations; and any other qualifying costs related to the exit plan. These estimated costs are grouped by specific projects within the overall exit plan and are then monitored on a monthly basis. Such disclosures represent management s best estimates, but require assumptions about the plans that may change over time. Changes in estimates for individual locations and other matters are evaluated periodically to determine if a change in estimate is required for the overall restructuring plan. Subsequent changes to the original estimates are included in current period earnings and identified as business consolidation gains or losses.

Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies *(continued)*

Recoverability of Goodwill and Intangible Assets

On an annual basis and at interim periods when circumstances require, the company tests the recoverability of its goodwill and indefinite-lived intangible assets. The company utilized the two-step impairment analysis and elected not to use the qualitative assessment or step zero approach. In the two-step impairment analysis, the company compares the carrying value of each identified reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. The company recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its implied fair value. The fair values of the reporting units are estimated using the net present value of discounted cash flows generated by each reporting unit, excluding any financing costs or dividends. The company s discounted cash flows are based upon reasonable and appropriate assumptions, which are weighted for their likely probability of occurrence, about the underlying business activities of the company s reporting units.

For this evaluation, our reporting units are consistent with our reportable segments identified in Note 2 except that assets within metal beverage packaging, North America, are tested separately from those in metal beverage packaging, Asia, and Latapack-Ball Embalagens Ltda. Additionally, assets in the Aerocan S.A.S. reporting unit are tested separately from the remainder of metal beverage packaging, Europe. These reporting units have been identified based on the level at which discrete financial information is reviewed by the segment management. When a business within a reporting unit is disposed of, goodwill is allocated to the gain or loss on disposition using the relative fair value methodology. During 2012, the company determined that the fair value of each of the reporting units of the company was significantly in excess of its respective carrying value.

Amortizable intangible assets are tested for impairment, when deemed necessary, based on undiscounted cash flows and, if impaired, are written down to fair value based on either discounted cash flows or appraised values.

Defined Benefit Pension Plans and Other Employee Benefits

The company has defined benefit plans that cover a significant portion of its employees. The company also has postretirement plans that provide certain medical benefits and life insurance for retirees and eligible dependents and, to a lesser extent, participates in multiemployer defined benefit plans for which Ball is not the sponsor. For the company sponsored plans, the relevant accounting guidance requires that management make certain assumptions relating to the long-term rate of return on plan assets, discount rates used to measure future obligations and expenses, salary scale inflation rates, health care cost trend rates, mortality and other assumptions. The company believes that the accounting estimates related to our pension and postretirement plans are critical accounting estimates, because they are highly susceptible to change from period to period based on the performance of plan assets, actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends and known economic and market conditions at the time of valuation. However, actual results may differ substantially from the estimates that were based on the critical assumptions.

The company recognizes the funded status of each defined benefit pension plan and other postretirement benefit plan on the consolidated balance sheet. Each overfunded plan is recognized as an asset, and each underfunded plan is recognized as a liability. Pension plan liabilities are revalued annually based on updated assumptions and information about the individuals covered by the plan. For pension plans, accumulated actuarial gains and losses in excess of a 10 percent corridor, the prior service cost and the transition asset are amortized on a straight-line basis from the date recognized over the average remaining service period of active participants. For other postemployment benefits, the 10 percent corridor is not used. The majority of costs related to defined benefit and other postretirement plans are included in cost of sales; the remainder is included in selling, general and administrative expenses.

In addition to defined benefit and postretirement plans, the company maintains reserves for employee medical claims, up to our insurance stop-loss limit, and workers compensation claims. These are regularly evaluated and revised, as needed, based on a variety of information, including historical experience, actuarial estimates and current employee statistics.

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Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies *(continued)*

Income Taxes

Deferred income taxes reflect the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at each balance sheet date, based upon enacted income tax laws and tax rates. Income tax expense or benefit is provided based on earnings reported in the financial statements. The provision for income tax expense or benefit differs from the amounts of income taxes currently payable because certain items of income and expense included in the consolidated financial statements are recognized in different time periods by taxing authorities.

Deferred tax assets, including operating loss, capital loss and tax credit carryforwards, are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that any portion of these tax attributes will not be realized. In addition, from time to time, management must assess the need to accrue or disclose uncertain tax positions for proposed adjustments from various federal, state and foreign tax authorities who regularly audit the company in the normal course of business. In making these assessments, management must often analyze complex tax laws of multiple jurisdictions, including many foreign jurisdictions. The accounting guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The company records the related interest expense and penalties, if any, as tax expense in the tax provision.

Derivative Financial Instruments

The company uses derivative financial instruments for the purpose of hedging commercial risk exposures to fluctuations in interest rates, currency exchange rates, raw materials purchasing, inflation rates and common share repurchases. The company s derivative instruments are recorded in the consolidated balance sheets at fair value. For a derivative designated as a cash flow hedge, the effective portion of the derivative s mark to fair value is initially reported as a component of accumulated other comprehensive earnings and subsequently reclassified into earnings when the hedged item affects earnings. The ineffective portion of the mark to fair value associated with all hedges is reported in earnings immediately. Derivatives that do not qualify for hedge accounting are marked to fair value with gains and losses immediately recorded in earnings. In the consolidated statements of cash flows, derivative activities are classified based on the items being hedged.

Realized gains and losses from hedges are classified in the consolidated statements of earnings consistent with the accounting treatment of the items being hedged. Upon the early dedesignation of an effective derivative contract, the gains or losses are deferred in accumulated other comprehensive earnings until the originally hedged item affects earnings. Any gains or losses incurred after the dedesignation date are reported in earnings immediately.

Revenue Recognition in the Aerospace and Technologies Segment

Sales under long-term contracts in the aerospace and technologies segment are primarily recognized using percentage-of-completion under the cost-to-cost method of accounting. The three types of long-term sales contracts used in the current year are (1) cost-type sales contracts, which represent approximately 60 percent of segment net sales; (2) fixed price sales contracts, which represent 34 percent of segment net sales; and (3) time and material contracts, which account for the remainder. A cost-type sales contract is an agreement to perform the contract for cost plus an agreed upon profit component, fixed price sales contracts are completed for a fixed price and time and material contracts involve the sale of engineering labor at fixed rates per hour. Cost-type sales contracts can have different types of fee arrangements, including fixed fee, cost, milestone and performance incentive fees, award fees or a combination thereof.

At the inception of contract performance, our estimates of base, incentive and other fees are established at a conservative estimate of profit over the period of contract performance. Throughout the period of contract performance, the company regularly reevaluates and, if necessary, revises estimates of total contract revenue, total contract cost and extent of progress toward completion. Provision for estimated contract losses, if any, is made in the period that such losses are determined to be probable. Because of sales contract payment schedules, limitations on funding and contract terms, our sales and accounts receivable generally include amounts that have been earned but not yet billed. As a prime U.S. government contractor or subcontractor, the aerospace and technologies segment is subject to a high degree of regulation, financial review and oversight by the U.S. government.

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Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies *(continued)*

Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Ball Corporation, its subsidiaries, and variable interest entities in which Ball Corporation is considered to be the primary beneficiary (collectively, Ball, the company, we or our). Equity investments in which the company exercises significant influence but does not control and is not the primary beneficiary are accounted for using the equity method of accounting. Investments in which the company does not exercise significant influence over the investee are accounted for using the cost method of accounting. Intercompany transactions are eliminated.

Reclassifications

Certain prior year amounts have been reclassified in order to conform to the current year presentation.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market using either the first-in, first-out (FIFO) cost method of accounting or the average cost method. Inventory cost is calculated for each inventory component taking into consideration the appropriate cost factors including fixed and variable overhead, material price volatility and production levels.

Depreciation and Amortization

Property, plant and equipment are carried at the cost of acquisition or construction and depleted over the estimated useful lives of the assets. Assets are depreciated and amortized using the straight-line method over their estimated useful lives, generally 5 to 40 years for buildings and improvements and 2 to 20 years for machinery and equipment. Finite-lived intangible assets, including capitalized software costs, are generally amortized over their estimated useful lives of 3 to 23 years.

During 2012, the company utilized a third party appraiser to assist in the evaluation of the estimated useful lives of its drawn and ironed container and related end production equipment used to make beverage containers and ends and two-piece food containers. This evaluation was performed as a result of the global alignment of the company s use and maintenance practices for this equipment and the company s experience with the duration over which this equipment can be utilized. As a result, the company has revised the estimated useful lives of this type of equipment utilized throughout the company, which resulted in a net reduction in depreciation expense and cost of sales of $34.9 million ($22.3 million after tax, or $0.14 per diluted share) for the year ended December 31, 2012, as compared to the amount of depreciation expense and cost of sales that would have been recognized by utilizing the prior depreciable lives. The company has also evaluated its estimates of the accounting for tooling, spare parts and dunnage, as well as the related obsolescence, and aligned its practices for all operations, resulting in a one-time increase in cost of sales and depreciation expense of $11.0 million ($6.7 million after tax, or $0.04 per diluted share) for the year ended December 31, 2012, primarily attributable to the immediate recognition of expense as items are placed in service.

Effective January 1, 2012, the company changed the presentation of capitalized software in its consolidated statements of earnings to classify such assets as intangible assets rather than property, plant and equipment. As a result, the amounts included in the consolidated balance sheet in intangibles and other assets, net of accumulated amortization, were $50.4 million and $45.2 million as of December 31, 2012 and December 31, 2011, respectively. Capitalized software amounts that were previously reported as depreciation have been reclassified to amortization for all years presented in the statements of earnings and cash flows, as well as in the notes to the consolidated statements of earnings.

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Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies *(continued)*

Deferred financing costs are amortized over the life of the related loan facility and are reported as part of interest expense. When debt is repaid prior to its maturity date, the write-off of the remaining unamortized deferred financing costs, or pro rata portion thereof, is also reported as interest expense.

Under certain business consolidation activities, accelerated depreciation may be required over the remaining useful life for designated assets to be scrapped or abandoned. The accelerated depreciation related to facility closures is disclosed as part of the business consolidation costs in the appropriate period.

Environmental Reserves

The company estimates the liability related to environmental matters based on, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. The company records the best estimate of a loss when the loss is considered probable. As additional information becomes available, the company assesses the potential liability related to pending matters and revises the estimates.

Revenue Recognition in the Packaging Segments

The company recognizes sales of products in the packaging segments when the four basic criteria of revenue recognition are met. The four basic criteria are met when delivery has occurred and title has transferred, there is persuasive evidence of an agreement or arrangement, the price is fixed and determinable and collection is reasonably assured.

Fair Value Measurements

Generally accepted accounting principles define fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value using the following definitions (from highest to lowest priority):

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2 Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

- Level 3 Prices or valuation techniques requiring inputs that are both significant to the fair value measurement and unobservable.

Stock-Based Compensation

Ball has a variety of restricted stock and stock option plans, and the related stock-based compensation is primarily reported as part of selling, general and administrative expenses in the consolidated statements of earnings. The compensation expense associated with restricted stock grants is calculated using the fair value at the date of grant (closing stock price) and is amortized over the restriction period. For stock options, the company has elected to use the Black-Scholes valuation model and amortizes the estimated fair value on a straight-line basis over the requisite service period (generally the vesting period). The company s deferred compensation stock program is subject to variable plan accounting and, accordingly, is marked to the closing price of the company s common stock at the end of each reporting period. Tax benefits associated with option exercises are reported in financing activities in the consolidated statements of cash flows. Further details regarding the expense calculated under the fair value based method are provided in Note 16.

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Ball Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

1. Critical and Significant Accounting Policies *(continued)*

Research and Development

Research and development costs are expensed as incurred in connection with the company s internal programs for the development of products and processes. Costs incurred in connection with these programs, the majority of which are included in cost of sales, amounted to $26.8 million, $22.3 million and $22.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Currency Translation

Assets and liabilities of foreign operations are translated using period-end exchange rates, and revenues and expenses are translated using average exchange rates during each period. Translation gains and losses are reported in accumulated other comprehensive earnings as a component of shareholders equity.

Accounting Pronouncements

Recently Adopted Accounting Standards

In July 2012, accounting guidance was issued to allow companies to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value as a basis for determining whether it is necessary to perform the currently prescribed quantitative impairment test. The new guidance was effective for Ball as of the fourth quarter of 2012, and did not have an effect on the company s consolidated financial statements.

In September 2011, accounting guidance was issued to allow companies to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it is necessary to perform the two-step quantitative goodwill impairment test described in current accounting guidelines. The new guidance was effective for Ball on January 1, 2012, and did not have a material effect on the company s consolidated financial statements.

In June 2011, accounting guidance was issued requiring that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive earnings or in two separate but consecutive statements. The guidance also required the company to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive earnings to net earnings, which was delayed until 2013. Ball has historically presented comprehensive earnings within the statement of changes in shareholders equity and has adopted the two separate but consecutive statements presentation in its consolidated financial statements effective January 1, 2012. The new guidance did not have a material effect on the company s consolidated financial statements.

In May