Ingredion Inc
Form 10-Q
November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

or

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

For the transition period from to

COMMISSION FILE NUMBER 1-13397

Ingredion Incorporated

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

22-3514823

(I.R.S. Employer Identification Number)

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

(708) 551-2600

(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

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

Emerging growth company

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

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

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

CLASS	OUTSTANDING AT OCTOBER 31, 2018
Common Stock, $.01 par value	70,703,824 shares

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share amounts)	2018	2017	2018	2017
Net sales before shipping and handling costs	$ 1,563	$ 1,591	$ 4,752	$ 4,701
Less: shipping and handling costs	113	106	337	306
Net sales	1,450	1,485	4,415	4,395
Cost of sales	1,116	1,097	3,367	3,283
Gross profit	334	388	1,048	1,112
Operating expenses	148	154	465	462
Other income, net	(3)	(4)	(7)	(7)
Restructuring/impairment charges	34	7	45	23
Operating income	155	231	545	634
Financing costs, net	24	16	65	57
Other, non-operating income	(1)	(2)	(3)	(5)
Income before income taxes	132	217	483	582
Provision for income taxes	34	48	126	153
Net income	98	169	357	429
Less: Net income attributable to non-controlling interests	3	3	8	9
Net income attributable to Ingredion	$ 95	$ 166	$ 349	$ 420
Weighted average common shares outstanding:				
Basic	71.2	71.9	71.8	72.0
Diluted	71.9	73.3	72.7	73.4
Earnings per common share of Ingredion:				
Basic	$ 1.33	$ 2.31	$ 4.86	$ 5.83

Diluted	$ 1.32	$ 2.26	$ 4.80	$ 5.72

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Net income	$ 98	$ 169	$ 357	$ 429
Other comprehensive income:				
Losses on cash flow hedges, net of income tax effect of $ —, $6, $ — and $2, respectively	(2)	(10)	(1)	(2)
Losses on cash flow hedges reclassified to earnings, net of income tax effect of $ —, $1, $1 and $ —, respectively	2	—	4	1
Actuarial (losses) gains on pension and other postretirement obligations, settlements and plan amendments, net of income tax effect of $ — for all periods presented	—	—	(1)	1
Losses related to pension and other postretirement obligations reclassified to earnings, net of income tax effect of $ — for all periods presented	—	—	—	(1)
Unrealized (losses) gains on investments, net of income tax effect of $ — for all periods presented	(1)	—	—	1
Currency translation adjustment	(17)	30	(113)	62
Comprehensive income	80	189	246	491
Less: Comprehensive income attributable to non-controlling interests	3	3	4	9
Comprehensive income attributable to Ingredion	$ 77	$ 186	$ 242	$ 482

See Notes to Condensed Consolidated Financial Statements

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PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Balance Sheets

(in millions, except share and per share amounts)	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 431	$ 595
Short-term investments	6	9
Accounts receivable, net	865	961
Inventories	852	823
Prepaid expenses	36	27
Total current assets	2,190	2,415
Property, plant and equipment, net of accumulated depreciation of $3,070 and $2,991, respectively	2,146	2,217
Goodwill	792	803
Other intangible assets, net of accumulated amortization of $160 and $139, respectively	468	493
Deferred income tax assets	11	9
Other assets	144	143
Total assets	$ 5,751	$ 6,080
Liabilities and equity		
Current liabilities:		
Short-term borrowings	$ 111	$ 120
Accounts payable and accrued liabilities	764	837
Total current liabilities	875	957
Non-current liabilities	233	227
Long-term debt	1,559	1,744
Deferred income tax liabilities	195	199
Share-based payments subject to redemption	32	36
Ingredion stockholders’ equity:		
Preferred stock — authorized 25,000,000 shares — $0.01 par value, none issued	—	—

Common stock — authorized 200,000,000 shares — $0.01 par value, 77,810,875 issued at September 30, 2018 and December 31, 2017, respectively	1	1
Additional paid-in capital	1,131	1,138
Less: Treasury stock (common stock: 7,117,938 and 5,815,904 shares at September 30, 2018 and December 31, 2017, respectively) at cost	(650)	(494)
Accumulated other comprehensive loss	(1,131)	(1,013)
Retained earnings	3,484	3,259
Total Ingredion stockholders' equity	2,835	2,891
Non-controlling interests	22	26
Total equity	2,857	2,917
Total liabilities and equity	$ 5,751	$ 6,080

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Statements of Equity and Redeemable Equity

(Unaudited)

	Total Equity						Share-based
		Additional		Accumulated Other		Non-	Payments Subject to
(in millions)	Common Stock	Paid-In Capital	Treasury Stock	Comprehensive Loss	Retained Earnings	Controlling Interests	Redemption
Balance, December 31, 2017	$ 1	$ 1,138	$ (494)	$ (1,013)	$ 3,259	$ 26	$ 36
Net income attributable to Ingredion					349		
Net income attributable to non-controlling interests						8	
Dividends declared					(131)	(7)	
Repurchases of common stock			(177)				
Share-based compensation, net of issuance		(3)	21				(4)
Other comprehensive loss				(111)		(4)	
Other		(4)		(7)	7	(1)	
Balance, September 30, 2018	$ 1	$ 1,131	$ (650)	$ (1,131)	$ 3,484	$ 22	$ 32

	Total Equity						Share-based
		Additional		Accumulated Other		Non-	Payments
	Common	Paid-In	Treasury	Comprehensive	Retained	Controlling	Subject to
(in millions)	Stock	Capital	Stock	Loss	Earnings	Interests	Redemption
Balance, December 31, 2016	$ 1	$ 1,149	$ (413)	$ (1,071)	$ 2,899	$ 30	$ 30
					420		

Net income attributable to Ingredion							
Net income attributable to non-controlling interests						9	
Dividends declared					(116)	(12)	
Repurchases of common stock			(123)				
Share-based compensation, net of issuance		(9)	32				—
Other comprehensive income				62			
Balance, September 30, 2017	$ 1	$ 1,140	$ (504)	$ (1,009)	$ 3,203	$ 27	$ 30

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in millions)	Nine Months Ended September 30, 2018	2017
Cash provided by operating activities		
Net income	$ 357	$ 429
Non-cash charges to net income:		
Depreciation and amortization	188	156
Mechanical stores expense	43	42
Deferred income taxes	(20)	(20)
Charge for fair value markup of acquired inventory	—	9
Other	33	32
Changes in working capital:		
Accounts receivable and prepaid expenses	14	15
Inventories	(73)	(33)
Accounts payable and accrued liabilities	(1)	(92)
Margin accounts	6	10
Other	32	(24)
Cash provided by operating activities	579	524
Cash used for investing activities		
Capital expenditures and mechanical stores purchases, net of proceeds on disposals	(234)	(222)
Payments for acquisitions	—	(13)
Short-term investments	2	(9)
Other	2	—
Cash used for investing activities	(230)	(244)
Cash used for financing activities		
Proceeds from borrowings	272	1,085

Payments on debt	(453)	(1,164)
Repurchases of common stock	(177)	(134)
Issuances of common stock for share-based compensation, net of settlements	(2)	14
Dividends paid, including to non-controlling interests	(137)	(120)
Cash used for financing activities	(497)	(319)
Effects of foreign exchange rate changes on cash	(16)	18
Decrease in cash and cash equivalents	(164)	(21)
Cash and cash equivalents, beginning of period	595	512
Cash and cash equivalents, end of period	$ 431	$ 491

See Notes to Condensed Consolidated Financial Statements

INGREDION INCORPORATED (“Ingredion”)

Notes to Condensed Consolidated Financial Statements

1. Interim Financial Statements

References to the “Company” are to Ingredion Incorporated (“Ingredion”) and its consolidated subsidiaries. These statements should be read in conjunction with the consolidated financial statements and the related notes to those statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

The unaudited Condensed Consolidated Financial Statements included herein were prepared by management on the same basis as the Company’s audited Consolidated Financial Statements for the year ended December 31, 2017 and reflect all adjustments (consisting solely of normal recurring items unless otherwise noted) which are, in the opinion of management, necessary for the fair presentation of results of operations and cash flows for the interim periods ended September 30, 2018 and 2017, and the financial position of the Company as of September 30, 2018. The results for the interim periods are not necessarily indicative of the results expected for the full years.

2. Summary of Significant Accounting Standards and Policies

For detailed information about the Company’s significant accounting standards, please refer to Note 2 of the Notes to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Except for the items listed below, there have been no other changes to the Company’s significant accounting policies for the three and nine months ended September 30, 2018.

Recently Adopted Accounting Standards

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606):

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) that introduced a five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU requires disclosures sufficient to enable users to understand the nature, amount, timing, and

uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The FASB also issued additional ASUs to provide further updates and clarification to this Update, including ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period.

As of January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, and all the related amendments ("new revenue standard"). The Company performed detailed procedures to review its revenue contracts held with its customers and did not identify any changes to the nature, amount, timing or uncertainty of revenue and cash flows arising from the contracts with customers as a result of the new revenue standard.

The new revenue standard requires the Company to recognize revenue under the core principle to depict the transfer of products to customers in an amount reflecting the consideration the Company expects to receive. In order to achieve that core principle, the Company applies the following five-step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company identified customer purchase orders, which in some cases are governed by a master sales agreement, as the contracts with its customers. For each contract, the Company considers the transfer of products, each of which is distinct, to be the identified performance obligation. In determining the transaction price for the performance obligation, the Company evaluates whether the price is subject to adjustment to determine the consideration to which the Company expects to be entitled. The pricing model can be fixed or variable within the contract. The variable pricing model is based on historical commodity pricing and is determinable prior to completion of the performance obligation.

Additionally, the Company has certain sales adjustments for volume incentive discounts and other discount arrangements that reduce the transaction price. The reduction of transaction price is estimated using the expected value method based on an analysis of historical volume incentives or discounts, over a period of time considered adequate to account for current pricing and business trends. Historically, actual volume incentives and discounts relative to those estimated and included when determining the transaction price have not materially differed. The product price as specified in the contract, net of any discounts, is considered the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. Payment is received shortly after the performance obligation is satisfied, therefore, the Company has elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component.

Revenue is recognized when the Company's performance obligation is satisfied and control is transferred to the customer, which occurs at a point in time, either upon delivery to an agreed upon location or to the customer. Further, in determining whether control has transferred, the Company considers if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred to the customer.

Historically, the Company included warehousing costs as a reduction of net sales before shipping and handling costs. In connection with the adoption of the new revenue standard, the Company determined these warehousing costs which were previously included as a reduction in net sales before shipping and handling costs are more appropriately classified as fulfillment activities. Therefore, upon adoption of the new revenue standard, the Company elected to include these costs within shipping and handling costs. The Company has elected to continue to classify shipping and handling costs as a reduction of net sales after implementing the new revenue standard consistent with its historical presentation. The Company has elected to make this adjustment on a retrospective basis, resulting in the change to the Condensed Consolidated Statements of Income shown below. The Company notes that the reclassification does not change reported net sales.

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
(in millions)	As Reported	As Adjusted	As Reported	As Adjusted
Condensed Consolidated Statements of Income:				
Net sales before shipping and handling costs	$ 1,574	$ 1,591	$ 4,653	$ 4,701
Less: shipping and handling costs	89	106	258	306
Net sales	$ 1,485	$ 1,485	$ 4,395	$ 4,395

The Company used the full retrospective method, which requires the restatement of all previously presented financial results. The adoption of the new standard did not result in any retrospective changes to the Company's Condensed Consolidated Statements of Comprehensive Income, Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Equity and Redeemable Equity, or the Condensed Consolidated Statements of Cash Flows. For detailed information about the Company's revenue recognition refer to Note 4 of the Notes to the Condensed Consolidated Financial Statements.

ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715):

In March 2017, the FASB issued ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This Update requires an entity to change the classification of the net periodic benefit cost for pension and postretirement plans within the statement of income by eliminating the ability to net all of the components of the costs together within operating income. The Update requires the service cost component to continue to be presented within operating income, classified within either cost of sales or operating expenses depending on the employees covered within the plan. The remaining components of the net periodic benefit cost, however, must be presented in the statement of income as a non-operating income (loss) below operating income. The Update was effective for annual periods beginning after December 15, 2017.

As of January 1, 2018, the Company adopted the amendments to ASC 715. The Company retrospectively adopted the presentation of service cost separate from the other components of net periodic costs for all periods presented. The interest cost, expected return on assets, amortization of prior service costs, net remeasurement, and other costs have been reclassified from cost of sales and operating expenses to other, non-operating income. The Company elected to apply the practical expedient which allows it to reclassify amounts disclosed previously in the retirement benefits note as the basis for applying retrospective presentation for comparative periods as it is impracticable to determine the disaggregation of

the cost components for amounts capitalized and amortized in those periods. On a prospective basis, the other components of net periodic benefit costs will not be included in amounts capitalized in inventory.

The adoption of the new standard did not result in any retrospective changes to the Company's Condensed Consolidated Statements of Comprehensive Income, Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Equity and Redeemable Equity, or the Condensed Consolidated Statements of Cash Flows. The adoption of the new standard impacted the presentation of the Company's previously reported results in the Condensed Consolidated Statements of Income and Note 6 of the Condensed Consolidated Financial Statements as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
(in millions)	As Reported	As Adjusted	As Reported	As Adjusted
Condensed Consolidated Statements of Income:				
Cost of sales	$ 1,097	$ 1,097	$ 3,282	$ 3,283
Gross profit	388	388	1,113	1,112
Operating expenses	152	154	458	462
Operating income	233	231	639	634
Other, non-operating income	—	(2)	—	(5)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
(in millions)	As Reported	As Adjusted	As Reported	As Adjusted
Operating income:				
North America	$ 179	$ 177	$ 520	$ 515
South America	26	26	44	45
Asia Pacific	29	30	88	90
EMEA	26	26	83	83
Corporate	(19)	(20)	(61)	(64)
Subtotal	241	239	674	669
Total operating income	$ 233	$ 231	$ 639	$ 634

Adoption of Highly Inflationary Accounting in Argentina

ASC 830, Foreign Currency Matters requires the use of highly inflationary accounting for countries whose cumulative three-year inflation exceeds 100 percent. The Company has been closely monitoring the inflation data and currency volatility in Argentina, where there are multiple data sources for measuring and reporting inflation. In the second

quarter of 2018, the Argentine peso rapidly devalued relative to the U.S. dollar, which along with increased inflation, triggered that the three-year cumulative inflation in that country exceeded 100 percent as of June 30, 2018. As a result, the Company elected to adopt highly inflationary accounting as of July 1, 2018 for its affiliate, Ingredion Argentina S.A. ("Argentina"). Under highly inflationary accounting, Argentina's functional currency becomes the U.S. dollar, and its income statement and balance sheet will be measured in U.S. dollars using both current and historical rates of exchange. The effect of changes in exchange rates on Argentine peso-denominated monetary assets and liabilities will be reflected in earnings in financing costs. For the three months ended September 30, 2018, the Company recognized a $3 million charge related to the remeasurement of Argentina's balance sheet. Net sales of Argentina were approximately three percent of the Company's consolidated net sales for the three and nine months ended September 30, 2018.

ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10):

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall. The amendments in ASU 2016-01 are intended to improve the recognition, measurement, presentation and disclosure of financial assets and liabilities to provide users of financial statements with information that is more useful for decision-making purposes. Among other changes, ASU 2016-01 requires equity securities to be measured at fair value with changes in fair value recognized through net income and no longer through other comprehensive income. The Company is required to apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption.

The Company adopted the amendments to ASC 825 by recognizing a $2 million cumulative-effect adjustment to retained earnings and accumulated other comprehensive income, classified in "other" on the Condensed Consolidated Statements of Equity and Redeemable Equity. Prospectively the Company will recognize changes in the fair value of its equity securities through other income, net on the Condensed Consolidated Statements of Income.

ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income:

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This Update allows for the reclassification of stranded tax effects on items resulting from the Tax Cuts and Jobs Act ("TCJA") from accumulated other comprehensive income to retained earnings. Tax effects unrelated to the 2017 Tax Act are released from AOCI using either the specific identification approach or the portfolio approach based on the nature of the underlying item. The Company early adopted the provisions of ASU No. 2018-02 during the third quarter of 2018 using the specific identification approach and reclassified $5 million from accumulated other comprehensive income to retained earnings, classified in "other" on the Condensed Consolidated Statements of Equity and Redeemable Equity.

New Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes Topic 840, Leases. This Update increases the transparency and comparability of organizations by recognizing lease assets and lease liabilities on the balance sheet for leases longer than 12 months and disclosing key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed. The FASB also issued ASU 2018-11 to provide further updates and clarification to this Update. This Update is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Company currently plans to adopt the standard on January 1, 2019. Adoption will require a modified retrospective approach for the transition. The Company expects the adoption of the guidance in this Update to have a material impact on its Consolidated Balance Sheets as operating leases will be recognized both as assets and liabilities on the Consolidated Balance Sheets. The Company's adoption process is ongoing, including evaluating and quantifying the impact on its consolidated financial statements, identifying the population of leases, implementing a selected technology solution and collecting and validating lease data.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This Update simplifies the subsequent measurement of goodwill as the Update eliminates Step 2 from the goodwill impairment test. Instead, under the Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should then recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss recognized not to exceed the total amount of goodwill allocated to that reporting unit. This Update is effective for annual periods beginning after December 15, 2019, with early adoption permitted.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This Update modifies accounting guidance for hedge accounting by making more hedge strategies eligible for hedge accounting, amending presentation and disclosure requirements, and changing how companies assess ineffectiveness. The intent is to simplify the application of hedge accounting and increase transparency of information about an entity's risk management activities. The amended guidance is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Company is in the process of assessing the effects of these updates including potential changes to existing hedging arrangements, as well as the implementation approach for accounting for these changes. The Company intends to adopt this standard on January 1, 2019.

Significant Accounting Policies

Goodwill and indefinite-lived intangible assets: ASC Topic 350 requires that an entity test its goodwill balance for impairment at the reporting unit level at least annually. Historically, the Company has performed this test on October 1, the first day of its fourth quarter. During the first half of 2018, the Company elected to change the timing of its annual goodwill impairment test and annual indefinite-lived intangibles impairment test from the first day of the fourth quarter to the first day of the third quarter. Management believes this voluntary change is preferable as the timing of its annual

impairment testing will better align with its annual strategic planning process. This impairment test date change was applied prospectively beginning on July 1, 2018 and had no effect on the Company's consolidated financial statements.

Goodwill ($792 million and $803 million at September 30, 2018 and December 31, 2017, respectively) represents the excess of the cost of an acquired entity over the fair value assigned to identifiable assets acquired and liabilities assumed. The Company also has indefinite lived intangible assets of $178 million at September 30, 2018 and December 31, 2017. The carrying value of goodwill by reportable business segment at September 30, 2018 and December 31, 2017 was as follows:

(in millions)	North America		South America	Asia Pacific	EMEA	Total
Balance at December 31, 2016	$ 610		$ 26	$ 85	$ 63	$ 784
Acquisitions	(10)	(a)	—	15	—	5
Currency translation	—		—	7	7	14
Balance at December 31, 2017	600		26	107	70	803
Acquisitions	—		—	—	—	—
Currency translation	—		(5)	(3)	(3)	(11)
Balance at September 30, 2018	$ 600		$ 21	$ 104	$ 67	$ 792

(a) Related to TIC Gums Incorporated ("TIC Gums") purchase price accounting adjustments

The original carrying value of goodwill by reportable business segment and accumulated impairment charges by reportable business segment at September 30, 2018 and December 31, 2017 were as follows:

(in millions)	North America	South America	Asia Pacific	EMEA	Total
Goodwill before impairment charges	$ 601	$ 59	$ 228	$ 70	$ 958
Accumulated impairment charges	(1)	(33)	(121)	—	(155)
Balance at December 31, 2017	600	26	107	70	803
Goodwill before impairment charges	601	54	225	67	947
Accumulated impairment charges	(1)	(33)	(121)	—	(155)
Balance at September 30, 2018	$ 600	$ 21	$ 104	$ 67	$ 792

The following table summarizes the Company's indefinite-lived intangible assets for the periods presented:

(in millions)	Balance at September 30, 2018	Balance at December 31, 2017
Trademarks/tradenames (indefinite-lived)	$ 178	$ 178

The Company assesses goodwill and indefinite-lived intangible assets for impairment annually (or more frequently if impairment indicators arise). The Company has chosen to perform this annual impairment assessment as of July 1 of each year.

In testing goodwill for impairment, the Company first assesses qualitative factors in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. After assessing the qualitative factors, if the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount then the Company does not perform the two-step impairment test. If the Company concludes otherwise, then it performs the first step of the two-step impairment test as described in ASC Topic 350. In the first step (“Step One”), the fair value of the reporting unit is compared to its carrying value. If the fair value of the reporting unit exceeds the carrying value of its net assets, goodwill is not considered impaired and no further testing is required. If the carrying value of the net assets exceeds the fair value of the reporting unit, a second step (“Step Two”) of the impairment assessment is performed in order to determine the implied fair value of a reporting unit's goodwill. Determining the implied fair value of goodwill requires a valuation of the reporting unit's tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of its goodwill, goodwill is deemed impaired and is written down to the extent of the difference. Based on the results of the annual assessment, the Company concluded that as of July 1, 2018, it was more likely than not that the fair value of its reporting units was greater than their carrying value. The Company continues to monitor its

reporting units in struggling economies and recent acquisitions for challenges in the business that may negatively impact the fair value of these reporting units.

In testing indefinite-lived intangible assets for impairment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is impaired. After assessing the qualitative factors, if the Company determines that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, then it would not be required to compute the fair value of the indefinite-lived intangible asset. In the event the qualitative assessment leads the Company to conclude otherwise, then it would be required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test in accordance with ASC subtopic 350-30. In performing the qualitative analysis, the Company considers various factors including net sales derived from these intangibles and certain market and industry conditions. Based on the results of this qualitative assessment, the Company concluded that as of July 1, 2018, it was more likely than not that the fair value of the indefinite-lived intangible assets was greater than their carrying value.

3. Acquisitions

On March 9, 2017, the Company completed its acquisition of Sun Flour Industry Co., Ltd. ("Sun Flour") in Thailand for $18 million. As of September 30, 2018, the Company has paid $16 million in cash and recorded $2 million in accrued liabilities for deferred payments due to the previous owner. The Company funded the acquisition primarily with cash on-hand. The acquisition of Sun Flour added a fourth manufacturing facility to the Company's operations in Thailand. Sun Flour produces rice-based ingredients used primarily in the food industry. The results of the acquired operation are included in the Company's consolidated results from the acquisition date forward within the Asia Pacific business segment, and $14 million of goodwill was allocated to that segment.

The Company finalized the purchase price allocation for all areas for the Sun Flour acquisition during the first quarter of 2018. The finalization of goodwill and intangible assets did not have a significant impact on previously estimated amounts. The acquisition of Sun Flour added $15 million to goodwill and identifiable intangible assets and $3 million to net tangible assets as of the acquisition date.

Goodwill represents the amount by which the purchase price exceeds the estimated fair value of the net assets acquired. The goodwill results from synergies and other operational benefits expected to be derived from acquisitions. The goodwill related to Sun Flour is not tax deductible.

Pro-forma results of operations for the acquisition made in 2017 are not presented as the effect of the acquisition would not be material to the Company's results of operations for any periods presented.

The Company incurred immaterial pre-tax acquisition and integration costs for the three and nine months ended September 30, 2018. The Company incurred $1 million and $3 million of pre-tax acquisition and integration costs for the three and nine months ended September 30, 2017, respectively, associated with its recent acquisitions.

4. Revenue Recognition

The Company applies the provisions of ASC 606-10, Revenue from Contracts with Customers. The Company recognizes revenue under the core principle to depict the transfer of products to customers in an amount reflecting the consideration the Company expects to receive. In order to achieve that core principle, the Company applies the following five-step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company identified customer purchase orders, which in some cases are governed by a master sales agreement, as the contracts with its customers. For each contract, the Company considers the transfer of products, each of which is distinct, to be the identified performance obligation. In determining the transaction price for the performance obligation, the Company evaluates whether the price is subject to adjustment to determine the consideration to which the Company expects to be entitled. The pricing model can be fixed or variable within the contract. The variable pricing model is based on historical commodity pricing and is determinable prior to completion of the performance obligation. Additionally, the Company has certain sales adjustments for volume incentive discounts and other discount arrangements that reduce the transaction price. The reduction of transaction price is estimated using the expected value method based on an analysis of historical volume incentives or discounts, over a period of time considered adequate to account for current pricing and business trends. Historically, actual volume incentives and discounts relative to those estimated and included

when determining the transaction price have not materially differed. Volume incentives and discounts are accrued at the satisfaction of the performance obligation and accounted for in accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets. These amounts are not significant as of September 30, 2018 and December 31, 2017. The product price as specified in the contract, net of any discounts, is considered the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. Payment is received shortly after the performance obligation is satisfied, therefore, the Company has elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component.

Revenue is recognized when the Company's performance obligation is satisfied and control is transferred to the customer, which occurs at a point in time, either upon delivery to an agreed upon location or to the customer. Further, in determining whether control has transferred, the Company considers if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred to the customer.

Shipping and handling activities related to contracts with customers represent fulfillment costs and are presented as a reduction of net sales. Taxes assessed by governmental authorities and collected from customers are accounted for on a net basis and excluded from revenues. The Company applies a practical expedient to expense costs to obtain a contract as incurred as most contracts are one year or less. These costs are comprised primarily from the Company's internal sales force compensation program. Under the terms of these programs these are generally earned and the costs are recognized at the time the revenue is recognized.

From time to time the Company may enter into long term contracts with its customers. Historically, the contracts entered into by the Company do not result in significant contract assets or liabilities. Any such arrangements are accounted for in other assets or accounts payable and accrued liabilities in the Condensed Consolidated Balance Sheets. There were not significant contract assets or liabilities as of September 30, 2018 and December 31, 2017.

The Company is principally engaged in the production and sale of starches and sweeteners for a wide range of industries, and is managed geographically on a regional basis. The Company's operations are classified into four reportable business segments: North America, South America, Asia Pacific and Europe, Middle East and Africa ("EMEA"). The nature, amount, timing and uncertainty of the Company's net sales are managed by the Company primarily based on its geographic segments. Each region's product sales are unique to each region and have unique risks.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Net sales to unaffiliated customers:				
North America	$ 889	$ 903	$ 2,679	$ 2,689
South America	228	257	709	740

Asia Pacific	197	189	592	555
EMEA	136	136	435	411
Total	$ 1,450	$ 1,485	$ 4,415	$ 4,395

Additionally, the nature, amount, timing and uncertainty of the Company's net sales are managed based on its global customer mix. The Company sells to customers in a broad range of industries and evaluates the economic factors impacting its net sales through consideration of the industries into which its products are sold. Four distinct industries it focuses on are food, beverage, brewing (collectively, food & beverage ingredients) and animal nutrition.

The following table, which is gathered using customer industry classifications, disaggregates the Company's net sales by industry served:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Food	$ 771	$ 798	$ 2,352	$ 2,334
Beverage	157	176	488	505
Brewing	104	103	321	316
Food and Beverage Ingredients	1,032	1,077	3,161	3,155
Animal Nutrition	151	138	454	433
Other	267	270	800	807
Total Net sales	$ 1,450	$ 1,485	$ 4,415	$ 4,395

5. Impairment and Restructuring Charges

For the three and nine months ended September 30, 2018, the Company recorded $34 million and $45 million of pre-tax restructuring charges, respectively. During the second quarter of 2018, the Company introduced its Cost Smart program, designed to improve profitability, further streamline its global business and deliver increased value to shareholders through anticipated savings in cost of sales, including freight, and SG&A. For the three and nine months ended September 30, 2018, the Company recorded $31 million of restructuring expenses as part of the Cost Smart cost of sales program in relation to the cessation of wet-milling at the Stockton, California plant, consisting of $28 million of accelerated depreciation and $3 million of employee-related severance cost. The Company expects to incur up to $22 million of additional costs, consisting of $10 million of accelerated depreciation, up to $8 million of mechanical stores write downs and up to $4 million of other closing costs, during the fourth quarter related to this program.

As part of its Cost Smart SG&A program, during the third quarter of 2018, the Company announced a Finance Transformation initiative in Latin America to strengthen organizational capabilities and drive efficiencies to support the growth strategy of the Company. The Company recorded $3 million and $4 million of employee-related severance and other costs for the three and nine months ended September 30, 2018, respectively, in relation to this initiative. The Company expects to incur up to $1 million in employee-related severance and other costs during the fourth quarter and between $1 million and $2 million in 2019 related to this initiative. In addition, employee-related severance costs of $5 million were recorded as part of the Cost Smart SG&A program for the nine months ended September 30, 2018 in the South America and North America segments.

The Company also recorded other restructuring costs related to the North America Finance Transformation initiative of $4 million for the nine months ended September 30, 2018. In addition, there were other restructuring costs related to the leaf extraction process in Brazil of $1 million for the nine months ended September 30, 2018. The Company does not expect to incur any additional costs related to the North America Finance Transformation or the leaf extraction process in Brazil.

For the three and nine months ended September 30, 2017, the Company recorded $7 million and $23 million, respectively, of pre-tax restructuring charges. For the nine months ended September 30, 2017, the Company recorded total pre-tax restructuring-related charges in Argentina of $17 million for employee-related severance and other costs related to the organizational restructuring effort. The Company recorded $4 million and $5 million of other costs related to the North America Finance Transformation initiative for the three and nine months ended September 30, 2017, respectively. Additionally, for the three months ended September 30, 2017, the Company recorded $3 million of other pre-tax restructuring costs including employee-related severance costs in North America. For the nine months ended September 30, 2017, the Company recorded $1 million, of other pre-tax restructuring charges including other employee-related severance costs in North America and a refinement of estimates for prior year restructuring activities.

A summary of the Company's employee-related severance accrual as of September 30, 2018 is as follows (in millions):

Balance in employee-related severance accrual as of December 31, 2017	$ 11
Cost Smart cost of sales and SG&A severance	11
Payments made to terminated employees	(7)
Foreign exchange translation	(3)
Balance in employee-related severance accrual as of September 30, 2018	$ 12

Of the $12 million severance accrual as of September 30, 2018, $11 million is expected to be paid in the next 12 months.

6. Segment Information

The Company is principally engaged in the production and sale of starches and sweeteners for a wide range of industries, and is managed geographically on a regional basis. The Company's operations are classified into four

reportable business segments: North America, South America, Asia Pacific and EMEA. Its North America segment includes businesses in the U.S., Canada and Mexico. The Company's South America segment includes businesses in Brazil, Colombia, Ecuador and the Southern Cone of South America, which includes Argentina, Chile, Peru and Uruguay. Its Asia Pacific segment includes businesses in South Korea, Thailand, China, Japan, Indonesia, the Philippines, Singapore, Malaysia, India, Australia and New Zealand. The Company's EMEA segment includes businesses in Germany, the United Kingdom, Pakistan and South Africa. The Company does not aggregate its operating segments when determining its reportable segments. Net sales by product are not presented because to do so would be impracticable.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Net sales to unaffiliated customers:				
North America	$ 889	$ 903	$ 2,679	$ 2,689
South America	228	257	709	740
Asia Pacific	197	189	592	555
EMEA	136	136	435	411
Total	$ 1,450	$ 1,485	$ 4,415	$ 4,395
Operating income:				
North America	$ 138	$ 177	$ 431	$ 515
South America	22	26	68	45
Asia Pacific	25	30	75	90
EMEA	26	26	86	83
Corporate	(22)	(20)	(70)	(64)
Subtotal	189	239	590	669
Restructuring/impairment charges	(34)	(7)	(45)	(23)
Acquisition/integration costs	—	(1)	—	(3)
Charge for fair value markup of acquired inventory	—	—	—	(9)
Total operating income	$ 155	$ 231	$ 545	$ 634

(in millions)	As of September 30, 2018	As of December 31, 2017
Total assets:		
North America	$ 3,730	$ 3,967
South America	697	812
Asia Pacific	810	774
EMEA	514	527
Total	$ 5,751	$ 6,080

7. Financial Instruments, Derivatives and Hedging Activities

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

Commodity price hedging: The Company’s principal use of derivative financial instruments is to manage commodity price risk in North America relating to anticipated purchases of corn and natural gas to be used in the manufacturing process, generally over the next 12 to 24 months. The Company maintains a commodity-price risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity-price volatility. For example, the manufacturing of the Company’s products requires a significant volume of corn and natural gas. Price fluctuations in corn and natural gas cause the actual purchase price of corn and natural gas to differ from anticipated prices.

To manage price risk related to corn purchases in North America, the Company uses corn futures and options contracts that trade on regulated commodity exchanges to lock-in its corn costs associated with fixed-priced customer sales contracts. The Company uses over-the-counter natural gas swaps to hedge a portion of its natural gas usage in North America. These derivative financial instruments limit the impact that volatility resulting from fluctuations in market prices will have on corn and natural gas purchases and have been designated as cash flow hedges. The Company also enters into futures contracts to hedge price risk associated with fluctuations in the market price of ethanol. Unrealized gains and losses associated with marking the commodity hedging contracts to market (fair value) are recorded as a component of other comprehensive income (“OCI”) and included in the equity section of the Condensed Consolidated Balance Sheets as part of accumulated other comprehensive income/loss (“AOCI”). These amounts are subsequently reclassified into earnings in the same line item affected by the hedged transaction and in the same period or periods during which the hedged transaction affects earnings, or in the month a hedge is determined to be ineffective. The Company assesses the effectiveness of a commodity hedge contract based on changes in the contract’s fair value. The changes in the market value of such contracts have historically been, and are expected to continue to be, highly effective at offsetting changes in the price of the hedged items. The amounts representing the ineffectiveness of these cash flow hedges are not significant.

As of September 30, 2018, AOCI included $10 million of losses (net of income taxes of $4 million), pertaining to commodities-related derivative instruments designated as cash flow hedges. As of December 31, 2017, AOCI included $12 million of losses (net of tax of $7 million), pertaining to commodities-related derivative instruments designated as cash flow hedges.

Interest rate hedging: The Company assesses its exposure to variability in interest rates by identifying and monitoring changes in interest rates that may adversely impact future cash flows and the fair value of existing debt instruments, and by evaluating hedging opportunities. The Company maintains risk management control systems to monitor interest rate risk attributable to both the Company's outstanding and forecasted debt obligations as well as the Company's offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including sensitivity analysis, to estimate the expected impact of changes in interest rates on future cash flows and the fair value of the Company's outstanding and forecasted debt instruments.

Derivative financial instruments that have been used by the Company to manage its interest rate risk consist of interest rate swaps and T-Locks. The Company periodically enters into T-Locks to hedge its exposure to interest rate changes. The T-Locks are designated as hedges of the variability in cash flows associated with future interest payments caused by market fluctuations in the benchmark interest rate until the fixed interest rate is established, and are accounted for as cash flow hedges. Accordingly, changes in the fair value of the T-Locks are recorded to AOCI until the consummation of the underlying debt offering, at which time any realized gain (loss) is amortized to earnings over the life of the debt. The Company also has an interest rate swap agreement that effectively converts the interest rates on $200 million of its $400 million of 4.625 percent senior notes due November 1, 2020, to variable rates. This swap agreement calls for the Company to receive interest at the fixed coupon rate of the respective notes and to pay interest at a variable rate based on the six-month U.S. LIBOR rate plus a spread. The Company has designated this interest rate swap agreement as a hedge of the changes in fair value of the underlying debt obligations attributable to changes in interest rates and

accounts for it as a fair value hedge. The change in fair value of an interest rate swap designated as a hedging instrument that effectively offsets the variability in the fair value of outstanding debt obligations is reported in earnings. This amount offsets the gain or loss (the change in fair value) of the hedged debt instrument that is attributable to changes in interest rates (the hedged risk), which is also recognized in earnings. The fair value of the interest rate swap agreement as of September 30, 2018 was a $3 million loss, and is reflected in the Condensed Consolidated Balance Sheets within non-current liabilities, with an offsetting amount recorded in long-term debt to adjust the carrying amount of the hedged debt obligations. As of December 31, 2017, the fair value of the interest rate swap agreement was a $1 million gain, and is reflected in the Condensed Consolidation Balance Sheets within other assets, with an offsetting amount recorded in long-term debt to adjust the carrying amount of hedged debt obligations. The Company did not have any T-Locks outstanding as of September 30, 2018 or December 31, 2017.

As of September 30, 2018, AOCI included $2 million of losses (net of income taxes of $1 million) related to settled T-Locks. As of December 31, 2017, AOCI included $2 million of losses (net of income taxes of $1 million) related to settled T-Locks. These deferred losses are being amortized to financing costs over the terms of the senior notes with which they are associated.

Foreign currency hedging: Due to the Company's global operations, including operations in many emerging markets, it is exposed to fluctuations in foreign currency exchange rates. As a result, the Company has exposure to translational foreign exchange risk when the results of its foreign operations are translated to U.S. dollars and to transactional foreign exchange risk when transactions not denominated in the functional currency are revalued. The Company primarily uses derivative financial instruments such as foreign currency forward contracts, swaps and options to manage its transactional foreign exchange risk. As of September 30, 2018, the Company had foreign currency forward sales contracts that are designated as fair value hedges with an aggregate notional amount of $454 million and foreign currency forward purchase contracts with an aggregate notional amount of $149 million that hedged transactional exposures. As of December 31, 2017, the Company had foreign currency forward sales contracts with an aggregate notional amount of $447 million and foreign currency forward purchase contracts with an aggregate notional amount of $121 million that hedged transactional exposures.

The Company also has foreign currency derivative instruments that hedge certain foreign currency transactional exposures and are designated as cash flow hedges. The amount included in AOCI relating to these hedges at September 30, 2018 was not significant. As of December 31, 2017, AOCI included $1 million of gains (net of income taxes of $1 million) related to these hedges.

The fair value and balance sheet location of the Company's derivative instruments, presented gross in the Condensed Consolidated Balance Sheets, are reflected below:

Fair Value of Derivative Instruments as of September 30, 2018

Balance Sheet Location

Derivatives Designated as Hedging Instruments (in millions):	Balance Sheet Location	Fair Value		Fair Value
Commodity and foreign currency	Accounts receivable, net	$ 12	Accounts payable and accrued liabilities	$ 24
Commodity, foreign currency and interest rate contracts	Other assets	5	Non-current liabilities	14
		$ 17		$ 38

	Fair Value of Derivative Instruments as of December 31, 2017			
Derivatives Designated as Hedging Instruments (in millions):	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity and foreign currency	Accounts receivable, net	$ 11	Accounts payable and accrued liabilities	$ 23
Commodity, foreign currency and interest rate contracts	Other assets	3	Non-current liabilities	8
		$ 14		$ 31

As of September 30, 2018, the Company had outstanding futures and option contracts that hedged the forecasted purchase of approximately 59 million bushels of corn. The Company is unable to directly hedge price risk related to co-product sales; however, it occasionally enters into hedges of soybean oil (a competing product to corn oil) in order to

mitigate the price risk of corn oil sales. As of September 30, 2018, the Company had no outstanding futures or option contracts for soybean oil. The Company also had outstanding swap and option contracts that hedged the forecasted purchase of approximately 28 million mmbtu's of natural gas at September 30, 2018. Additionally, as of September 30, 2018, the Company had no outstanding ethanol futures contracts.

Additional information relating to the Company's derivative instruments is presented below:

Derivatives in Cash-Flow Hedging Relationships (in millions, pre-tax)	Amount of Gains (Losses) Recognized in OCI Three Months Ended September 30, 2018	2017	Location of Gains (Losses) Reclassified from AOCI into Income	Amount of Gains (Losses) Reclassified from AOCI into Income Three Months Ended September 30, 2018	2017
Commodity contracts	$ (5)	$ (18)	Cost of sales	$ (2)	$ —
Foreign currency contracts	3	2	Net sales/Cost of sales	—	1
Interest rate contracts	—	—	Financing costs, net	—	—
Total	$ (2)	$ (16)		$ (2)	$ 1

Derivatives in Cash-Flow Hedging Relationships (in millions, pre-tax)	Amount of Gains (Losses) Recognized in OCI Nine Months Ended September 30, 2018	2017	Location of Gains (Losses) Reclassified from AOCI into Income	Amount of Gains (Losses) Reclassified from AOCI into Income Nine Months Ended September 30, 2018	2017
Commodity contracts	$ (2)	$ (7)	Cost of sales	$ (5)	$ (1)
Foreign currency contracts	1	3	Net sales/Cost of sales	1	1
Interest rate contracts	—	—	Financing costs, net	(1)	(1)
Total	$ (1)	$ (4)		$ (5)	$ (1)

As of September 30, 2018, AOCI included $8 million of losses (net of income taxes of $3 million) on commodities-related derivative instruments designated as cash flow hedges that are expected to be reclassified into earnings during the next 12 months. Transactions and events expected to occur over the next 12 months that will necessitate reclassifying these derivative losses to earnings include the sale of finished goods inventory, which includes previously hedged purchases of corn and natural gas. The Company expects the losses to be offset by changes in the underlying commodities costs. Additionally, as of September 30, 2018, AOCI included $1 million of losses (net of an insignificant amount of taxes) on settled T-Locks and an insignificant amount of gains related to foreign currency hedges which are expected to be reclassified into earnings during the next 12 months.

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

(in millions)	As of September 30, 2018 Total	Level 1 (a)	Level 2 (b)	Level 3 (c)	As of December 31, 2017 Total	Level 1 (a)	Level 2 (b)	Level 3 (c)
Available for sale securities	$ 11	$ 11	$ —	$ —	$ 10	$ 10	$ —	$ —
Derivative assets	17	4	13	—	14	3	11	—
Derivative liabilities	38	12	26	—	31	11	20	—
Long-term debt	1,543	—	1,543	—	1,845	—	1,845	—

(a) Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets or liabilities.

(b) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability or can be derived principally from or corroborated by observable market data.

(c) Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The carrying values of cash equivalents, short-term investments, accounts receivable, accounts payable and short-term borrowings approximate fair values. Commodity futures, options and swap contracts are recognized at fair value. Foreign currency forward contracts, swaps and options are also recognized at fair value. The fair value of the Company's long-term debt is estimated based on quotations of major securities dealers who are market makers in the securities. As of September 30, 2018, the carrying value and fair value of the Company's long-term debt were $1.6 billion and $1.5 billion, respectively.

8. Share-Based Compensation

Stock Options: Under the Company's stock incentive plan ("SIP"), stock options are granted at exercise prices that equal the market value of the underlying common stock on the date of grant. The options have a 10-year term and are exercisable upon vesting, which occurs over a three-year period at the anniversary dates of the date of grant. Compensation expense is generally recognized on a straight-line basis for all awards over the employee's vesting period or over a one-year required service period for certain retirement eligible executive level employees. The Company estimates a forfeiture rate at the time of grant and updates the estimate throughout the vesting of the stock options within the amount of compensation costs recognized in each period.

The Company granted non-qualified options to purchase 215 thousand shares and 278 thousand shares for the nine months ended September 30, 2018 and 2017, respectively. The fair value of each option grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

	Nine Months Ended September 30,	
	2018	2017
Expected life (in years)	5.5	5.5
Risk-free interest rate	2.5 %	1.9 %
Expected volatility	19.8 %	22.5 %
Expected dividend yield	1.8 %	1.7 %

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

Stock option activity for the nine months ended September 30, 2018 was as follows:

	Number of Options (in thousands)	Weighted Average Exercise Price per Share	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2017	2,095	$ 71.81	5.87	$ 142
Granted	215	133.61		
Exercised	(137)	44.72		
Cancelled	(23)	99.81		
Outstanding as of September 30, 2018	2,150	$ 79.43	5.71	$ 65
Exercisable as of September 30, 2018	1,670	$ 67.33	5.13	$ 64

For the nine months ended September 30, 2018, cash received from the exercise of stock options was $6 million. As of September 30, 2018, the unrecognized compensation cost related to non-vested stock options totaled $4 million, which is expected to be amortized over the weighted-average period of approximately 1.7 years.

Additional information pertaining to stock option activity is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions, except per share)	2018	2017	2018	2017
Weighted average grant date fair value of stock options granted (per share)	$ —	$ —	$ 24.01	$ 23.90
Total intrinsic value of stock options exercised	1	11	12	23

Restricted Stock Units: The Company has granted restricted stock units ("RSUs") to certain key employees. The RSUs are subject to cliff vesting, generally after three years provided the employee remains in the service of the Company. Compensation expense is generally recognized on a straight-line basis for all awards over the employee's vesting period or over a one-year required service period for certain retirement eligible executive level employees. The Company estimates a forfeiture rate at the time of grant and updates the estimate throughout the vesting of the RSUs within the amount of compensation costs recognized in each period. The fair value of the RSUs is determined based upon the number of shares granted and the market price of the Company's common stock on the date of the grant.

The following table summarizes RSU activity for the nine months ended September 30, 2018:

(RSUs in thousands)	Number of RSUs	Weighted Average Fair Value per Share
Non-vested as of December 31, 2017	387	$ 100.13
Granted	112	129.47
Vested	(135)	83.77
Cancelled	(17)	113.92
Non-vested as of September 30, 2018	347	$ 115.15

As of September 30, 2018, the total remaining unrecognized compensation cost related to RSUs was $17 million, which will be amortized over a weighted average period of approximately 1.9 years.

Performance Shares: The Company has a long-term incentive plan for senior management in the form of performance shares. The ultimate payments for performance shares awarded and vested will be based solely on the Company's total shareholder return as compared to the total shareholder return of its peer group. The number of shares that ultimately vest can range from zero to 200 percent of the awarded grant depending on the Company's total shareholder return as compared to the total shareholder return of the peer group. The share award vesting will be calculated at the end of the three-year period and is subject to approval by management and the Compensation Committee. Compensation expense is based on the fair value of the performance shares at the grant date, established using a Monte Carlo simulation model. The total compensation expense for these awards is amortized over a three-year graded vesting schedule.

For the nine months ended September 30, 2018 the Company awarded 27 thousand performance shares at a weighted average fair value of $141.91 per share, respectively.

The 2015 performance share awards vested in the first quarter of 2018, achieving a 200 percent pay out of the grant, or 92 thousand total vested shares. There were 16 thousand performance share cancellations during the nine months ended September 30, 2018.

As of September 30, 2018, the unrecognized compensation cost related to these awards was $3 million, which will be amortized over the remaining requisite service periods of 1.7 years.

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

(in millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Stock options:				
Pre-tax compensation expense	$ 1	$ 2	$ 4	$ 6
Income tax benefit	—	(1)	(1)	(2)
Stock option expense, net of income taxes	1	1	3	4
RSUs:				
Pre-tax compensation expense	3	4	9	10
Income tax benefit	(1)	(2)	(2)	(4)
RSUs, net of income taxes	2	2	7	6
Performance shares and other share-based awards:				
Pre-tax compensation expense	—	1	2	4
Income tax benefit	(1)	(1)	(1)	(2)
Performance shares and other share-based compensation expense, net of income taxes	(1)	—	1	2
Total share-based compensation:				
Pre-tax compensation expense	4	7	15	20
Income tax benefit	(2)	(4)	(4)	(8)
Total share-based compensation expense, net of income taxes	$ 2	$ 3	$ 11	$ 12

9. Net Periodic Pension and Postretirement Benefit Costs

For detailed information about the Company's pension and postretirement benefit plans, please refer to Note 10 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

On January 1, 2018, the Company adopted ASU No. 2017-07, Compensation- Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. As a result, the interest cost, expected return on plan assets and amortization of actuarial loss components of net periodic benefit cost for the Company's pension plans and other postretirement plans are presented as other, non-operating income on

the Condensed Consolidated Statements of Income. There is no change to the presentation of the service cost component of net periodic benefit cost.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	U.S. Plans		Non-U.S. Plans		U.S. Plans		Non-U.S. Plans	
(in millions)	2018	2017	2018	2017	2018	2017	2018	2017
Service cost	$ 1	$ 1	$ 1	$ 1	$ 4	$ 4	$ 3	$ 3
Interest cost	4	3	3	3	10	9	8	8
Expected return on plan assets	(6)	(5)	(2)	(3)	(16)	(15)	(7)	(8)
Amortization of actuarial loss	—	—	—	—	—	—	1	1
Net periodic benefit cost	$ (1)	$ (1)	$ 2	$ 1	$ (2)	$ (2)	$ 5	$ 4

The Company currently anticipates that it will make approximately $5 million in cash contributions to its pension plans in 2018, consisting of $3 million to its non-U.S. pension plans and $2 million to its U.S. pension plans. For the nine months ended September 30, 2018, cash contributions of approximately $2 million were made to the non-U.S. plans and $2 million to the U.S. plans.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Service Cost	$ 1	$ 1	$ 1	$ 1
Interest cost	—	—	2	2
Amortization of prior service credit	—	—	(1)	(2)
Net periodic benefit cost	$ 1	$ 1	$ 2	$ 1

10. Earnings per Common Share

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

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
(in millions, except per share amounts)	Net Income Available to Ingredion	Weighted Average Shares	Per Share Amount	Net Income Available to Ingredion	Weighted Average Shares	Per Share Amount
Basic EPS	$ 95	71.2	$ 1.33	$ 166	71.9	$ 2.31
Effect of Dilutive Securities:						
Incremental shares from assumed exercise of dilutive stock options and vesting of dilutive RSUs and other awards		0.7			1.4	
Diluted EPS	$ 95	71.9	$ 1.32	$ 166	73.3	$ 2.26

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
(in millions, except per share amounts)	Net Income Available	Weighted Average Shares	Per Share Amount	Net Income Available	Weighted Average Shares	Per Share Amount

	to Ingredion			to Ingredion		
Basic EPS	$ 349	71.8	$ 4.86	$ 420	72.0	$ 5.83
Effect of Dilutive Securities:						
Incremental shares from assumed exercise of dilutive stock options and vesting of dilutive RSUs and other awards		0.9			1.4	
Diluted EPS	$ 349	72.7	$ 4.80	$ 420	73.4	$ 5.72

For the three and nine months ended September 30, 2018, approximately 0.6 million and 0.5 million share-based awards of common stock, respectively, were excluded from the calculation of diluted EPS as the impact of their inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2017, approximately 0.3 million share-based awards of common stock were excluded from the calculation of diluted EPS as the impact of their inclusion would have been anti-dilutive.

11. Inventories

Inventories are summarized as follows:

(in millions)	As of September 30, 2018	As of December 31, 2017
Finished and in process	$ 520	$ 495
Raw materials	284	278
Manufacturing supplies and other	48	50
Total inventories	$ 852	$ 823

12. Debt

As of September 30, 2018 and December 31, 2017, the Company’s total debt consisted of the following:

(in millions)	As of September 30, 2018	As of December 31, 2017
3.2% senior notes due October 1, 2026	$ 496	$ 496
4.625% senior notes due November 1, 2020	399	398
6.625% senior notes due April 15, 2037	254	254
5.62% senior notes due March 25, 2020	200	200
Term loan credit agreement due April 25, 2019	165	395
Revolving credit facility	48	—
Fair value adjustment related to hedged fixed rate debt instruments	(3)	1
Long-term debt	1,559	1,744
Short-term borrowings	111	120
Total debt	$ 1,670	$ 1,864

The Company’s long-term debt as of September 30, 2018 includes the Term Loan Credit Agreement (“Term Loan”) of $165 million that matures on April 25, 2019. This borrowing is included in the long-term debt as the Company has the ability and intent to refinance it on a long-term basis prior to the maturity date. The Company paid $230 million towards the Term Loan in the nine months ended September 30, 2018.

13. Income Taxes

The Tax Cuts and Jobs Act (“TCJA”) was enacted on December 22, 2017. The TCJA introduced numerous changes in the U.S. federal tax laws. Changes that have a significant impact on the Company’s effective tax rate are a reduction in the U.S. corporate tax rate from 35 percent to 21 percent and the imposition of a U.S. tax on its global intangible low-taxed income (“GILTI”). The TCJA also provides for a one-time transition tax on the deemed repatriation of cumulative foreign earnings as of December 31, 2017, and eliminates the tax on dividends from the Company’s foreign subsidiaries by allowing a 100 percent dividends received deduction.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to provide guidance on the application of U.S. Generally Accepted Accounting Principles (“GAAP”) to situations in which the registrant does not have all the necessary information available, prepared or analyzed (including computations) in sufficient detail to complete the accounting for the income tax effects of the TCJA.

In the fourth quarter of 2017, the Company calculated a provisional impact of the TCJA in accordance with SAB 118 and its understanding of the TCJA, including published guidance as of December 31, 2017. During the third quarter of 2018, the Company recorded $2 million of net incremental tax expense based on existing guidance from federal and state regulatory agencies. The TCJA analysis is final with respect to the one-time transition tax and remeasurement of deferred tax assets and liabilities. The remaining items, net impact of provision for taxes on unremitted earnings and other items, net remain provisional pending foreign tax credit regulations and final guidance from state regulatory agencies. The following table summarizes the impact of the TCJA:

(in millions)	Provisional TCJA impact	Updated TCJA impact
One-time transition tax	$ 21	$ 25
Remeasurement of deferred tax assets and liabilities	(38)	(38)
Net impact of provision for taxes on unremitted earnings	33	34
Other items, net	7	4
Net impact of the TCJA	$ 23	$ 25

Because of the complexity of the new GILTI rules, the Company is continuing to evaluate this provision of the TCJA for the application of ASC 740. Under GAAP, the Company is allowed to make an accounting policy choice of either treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or factoring such amounts into its measurement of its deferred taxes (the “deferred

method”). The Company has not made any adjustments related to potential GILTI tax in its financial statements, as it has not made a policy decision regarding whether to record deferred taxes on GILTI.

14. Accumulated Other Comprehensive Loss

During the third quarter of 2018, the Company adopted the ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) and ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. As a result of these adoptions, amounts previously included in accumulated other comprehensive loss were reclassified into retained earnings. See Note 2 in the Notes to the Condensed Consolidated Financial Statements for further details on the adoption of these accounting standards.

The following is a summary of net changes in accumulated other comprehensive loss by component and net of tax for the nine months ended September 30, 2018 and 2017:

(in millions)	Cumulative Translation Adjustment	Deferred (Loss) Gain on Hedging Activities	Pension and Postretirement Adjustment	Unrealized (Loss) Gain on Investment	Accumulated Other Comprehensive Loss
Balance, December 31, 2017	$ (951)	$ (13)	$ (51)	$ 2	$ (1,013)
Other comprehensive loss before reclassification adjustments	(113)	(1)	(1)	—	(115)
Amount reclassified from accumulated OCI	—	5	—	—	5
Adoption of ASU 2016-01*	—	—	—	(2)	(2)
Adoption of ASU 2018-02*	—	(2)	(3)		