BALL Corp
Form 10-Q
May 04, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2018

or

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

Commission file number 001-07349

BALL CORPORATION

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

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

Registrant's telephone number, including area code: 303/469-3131

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company)	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 issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 2018
Common Stock, without par value	349,240,025 shares

Table of Contents

Ball Corporation

QUARTERLY REPORT ON FORM 10-Q

For the period ended March 31, 2018

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BALL CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

($ in millions, except per share amounts)	Three Months Ended March 31, 2018	2017
Net sales	$ 2,785	$ 2,473
Costs and expenses		
Cost of sales (excluding depreciation and amortization)	(2,237)	(1,975)
Depreciation and amortization	(180)	(148)
Selling, general and administrative	(112)	(143)
Business consolidation and other activities	(30)	(55)
	(2,559)	(2,321)
Earnings before interest and taxes	226	152
Interest expense	(73)	(68)
Debt refinancing and other costs	(1)	—
Total interest expense	(74)	(68)
Earnings before taxes	152	84
Tax (provision) benefit	(34)	(22)
Equity in results of affiliates, net of tax	7	8
Net earnings	125	70
Net earnings attributable to noncontrolling interests	—	(2)
Net earnings attributable to Ball Corporation	$ 125	$ 68
Earnings per share: (a)		
Basic	$ 0.36	$ 0.19
Diluted	$ 0.35	$ 0.19
Weighted average shares outstanding: (000s) (a)		
Basic	350,215	350,048
Diluted	357,552	357,934

Cash dividends declared and paid, per share (a)	$ 0.10	$ 0.065

(a) Amounts in 2017 have been retrospectively adjusted for the two-for-one stock split that was effective on May 16, 2017.

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

BALL CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

($ in millions)	Three Months Ended March 31, 2018	2017
Net earnings	$ 125	$ 70
Other comprehensive earnings (loss):		
Foreign currency translation adjustment	11	69
Pension and other postretirement benefits	16	6
Effective financial derivatives	(52)	64
Total other comprehensive earnings (loss)	(25)	139
Income tax (provision) benefit	8	(11)
Total other comprehensive earnings (loss), net of tax	(17)	128
Total comprehensive earnings	108	198
Comprehensive (earnings) loss attributable to noncontrolling interests	—	(2)
Comprehensive earnings (loss) attributable to Ball Corporation	$ 108	$ 196

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

BALL CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

($ in millions)	March 31, 2018	December 31 2017
Assets		
Current assets		
Cash and cash equivalents	$ 477	$ 448
Receivables, net	2,090	1,634
Inventories, net	1,447	1,526
Other current assets	146	150
Total current assets	4,160	3,758
Noncurrent assets		
Property, plant and equipment, net	4,727	4,610
Goodwill	4,970	4,933
Intangible assets, net	2,432	2,462
Other assets	1,442	1,406
Total assets	$ 17,731	$ 17,169
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term debt and current portion of long-term debt	$ 337	$ 453
Accounts payable	2,822	2,762
Accrued employee costs	221	352
Other current liabilities	525	540
Total current liabilities	3,905	4,107
Noncurrent liabilities		
Long-term debt	7,131	6,518
Employee benefit obligations	1,484	1,463
Deferred taxes	690	695
Other liabilities	383	340
Total liabilities	13,593	13,123
Shareholders' equity		
Common stock (671,611,572 shares issued - 2018; 670,576,215 shares issued - 2017)	1,100	1,084
Retained earnings	5,114	4,987
Accumulated other comprehensive earnings (loss)	(673)	(656)
Treasury stock, at cost (321,435,190 shares - 2018; 320,694,598 shares - 2017)	(1,508)	(1,474)
Total Ball Corporation shareholders' equity	4,033	3,941
Noncontrolling interests	105	105
Total shareholders' equity	4,138	4,046
Total liabilities and shareholders' equity	$ 17,731	$ 17,169

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

BALL CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Three Months Ended March 31, 2018	2017
Cash Flows from Operating Activities		
Net earnings	$ 125	$ 70
Adjustments to reconcile net earnings to cash provided by (used in) continuing operating activities:		
Depreciation and amortization	180	148
Business consolidation and other activities	30	55
Deferred tax provision (benefit)	3	2
Other, net (a)	8	4
Changes in working capital components, net of dispositions (b)	(420)	(680)
Cash provided by (used in) operating activities (a)	(74)	(401)
Cash Flows from Investing Activities		
Capital expenditures	(242)	(125)
Business dispositions, net of cash sold	(45)	31
Other, net	3	3
Cash provided by (used in) investing activities	(284)	(91)
Cash Flows from Financing Activities		
Long-term borrowings	1,162	185
Repayments of long-term borrowings	(683)	(50)
Net change in short-term borrowings	(14)	273
Proceeds from issuances of common stock, net of shares used for taxes	—	(1)
Acquisitions of treasury stock	(35)	(3)
Common stock dividends	(35)	(23)
Other, net	(11)	(1)
Cash provided by (used in) financing activities	384	380
Effect of exchange rate changes on cash	1	(30)
Change in cash, cash equivalents and restricted cash (a)	27	(142)
Cash, cash equivalents and restricted cash - beginning of period (a)	459	607
Cash, cash equivalents and restricted cash - end of period (a)	$ 486	$ 465

(a) Amounts in 2017 have been retrospectively adjusted to reflect the adoption of new accounting guidance that was effective January 1, 2018. See Notes 2 and 6 for further details.

(b) Includes payments of costs associated with the acquisition of Rexam and the related sale of certain existing Ball and Rexam beverage can assets.

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Ball Corporation and its controlled affiliates, including its consolidated variable interest entities (collectively Ball, the company, we or our), and have been prepared by the company. Certain information and footnote disclosures, including critical and significant accounting policies normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted for this quarterly presentation.

Results of operations for the periods shown are not necessarily indicative of results for the year, particularly in view of the seasonality in the packaging segments and the variability of contract sales in the company's aerospace segment. These unaudited condensed consolidated financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto included in the company's Current Report on Form 8-K filed on March 6, 2018, pursuant to the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2017 (annual report).

The preparation of 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 sales 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 state the results of the periods presented.

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

2. Accounting Pronouncements

Recently Adopted Accounting Standards

Revenue from Contracts with Customers

On January 1, 2018, Ball adopted Accounting Standard Codification 606, “Revenue from Contracts with Customers,” and all related amendments (collectively, the new revenue standard) applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. The cumulative effect of initially applying the new revenue standard was recognized as an adjustment to the retained earnings balance as of January 1, 2018. Comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

The cumulative effect of the changes made to the consolidated January 1, 2018, balance sheet for the adoption of the new revenue standard is as follows:

($ in millions)	Balance at December 31, 2017	Adjustments Due to Adoption	Balance at January 1, 2018
Assets			
Receivables, net	$ 1,634	$ 307	$ 1,941
Inventories, net	1,526	(241)	1,285
Other current assets	150	(4)	146
Liabilities			
Other current liabilities	540	17	557
Deferred taxes	695	7	702
Shareholders' equity			
Retained earnings	4,987	37	5,024
Accumulated other comprehensive earnings (loss)	(656)	1	(655)

In accordance with the disclosure requirements of the new revenue standard, the impact of adoption on our consolidated statement of earnings and balance sheet was as follows:

	Three Months Ended March 31, 2018		
($ in millions, except per share amounts)	As Reported	Balances Without Adoption	Effect of Change Higher/(Lower)
Net sales	$ 2,785	$ 2,752	$ 33
Cost of sales (excluding depreciation and amortization)	(2,237)	(2,206)	(31)
Earnings before interest and taxes	226	224	2
Tax (provision) benefit	(34)	(34)	—
Net earnings attributable to Ball Corporation	125	123	2
Basic earnings per share	0.36	0.35	0.01
Diluted earnings per share	0.35	0.34	0.01

($ in millions)	March 31, 2018 As Reported	Balances Without Adoption	Effect of Change Higher/(Lower)
Assets			
Receivables, net	$ 2,090	$ 1,745	$ 345
Inventories, net	1,447	1,720	(273)
Other current assets	146	150	(4)
Liabilities			
Other current liabilities	525	504	21
Deferred taxes	690	683	7
Shareholders' equity			
Retained earnings	5,114	5,075	39
Accumulated other comprehensive earnings (loss)	(673)	(674)	1

6

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

The following summarizes the significant changes to the company's unaudited condensed consolidated statement of earnings and consolidated balance sheet as a result of the new revenue standard adopted on January 1, 2018, compared to if the company had continued to recognize sales under the previous revenue recognition guidance:

- For the metal beverage packaging segments and, to a lesser extent, in our food and aerosol packaging segment, the new revenue standard accelerated the recognition of certain sales to be over time such that a portion of sales was recognized prior to shipment or delivery of goods. The accelerated recognition of sales caused the company's inventory to decrease with an offsetting increase to unbilled receivables to the extent the amounts had not yet been invoiced to the customer and right to payment was unconditional.

- For the aerospace segment, sales from the majority of the company's contracts continue to be recognized over time under the "cost-to-cost" method based on the continuous transfer of control to the customer, which is consistent with how sales were recognized under previous revenue recognition guidance. Therefore, no cumulative adjustment was required to be made upon adoption.

- Ball recognized a contract liability when the customer's payment, or Ball's unconditional right to that consideration, preceded the company's performance.

Share-Based Compensation

In May 2017, amendments to existing accounting guidance were issued to provide clarity and reduce diversity in practice, cost and complexity when applying stock compensation accounting guidance regarding modifications to the terms or conditions of a share-based payment award. The amendments specify that all changes to the terms and conditions of a share-based payment award will require an entity to apply modification accounting unless all of the following are met: (1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified, (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The guidance was applied prospectively on January 1, 2018, and it did not have an impact on the company's unaudited condensed consolidated financial statements.

Pension and Postretirement Benefit Costs

In March 2017, amendments to existing accounting guidance were issued to change the presentation of net periodic pension cost and net periodic postretirement benefit cost. Employers are required to report the service cost component in the same line item as other compensation costs arising from services rendered by the associated employees during the period. The other components of net periodic pension cost and net periodic postretirement benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments also permit only the service cost component of net benefit cost to be eligible for capitalization. This guidance was adopted by the company on January 1, 2018, and the capitalization of the service cost component was applied on a prospective basis. Curtailment and settlement losses are reported by the company in business consolidation and other activities. All other non-service components are immaterial and will be presented in selling, general and administrative (SG&A) expenses beginning in 2018. These non-service costs were reported in both cost of sales and SG&A in prior periods; however, due to immateriality in all prior periods presented, no retrospective adjustments were considered necessary. Such costs were $6 million for the first quarter of 2017 and $21 million for the full year 2017.

Sales of Nonfinancial Assets

In February 2017, amendments to existing accounting guidance were issued to clarify the scope and to add guidance for partial sales of nonfinancial assets. The guidance requires that all entities account for the derecognition of a business in accordance with guidance for consolidation, including instances in which the business is considered to be in substance real estate. This guidance was applied on January 1, 2018, using a modified retrospective approach and did not have a material impact on the company’s unaudited condensed consolidated financial statements.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

Definition of a Business

In January 2017, amendments to existing accounting guidance were issued to further clarify the definition of a business in determining whether or not a company has acquired or sold a business. The amendments provide a screen to determine when an integrated set of assets and activities (collectively referred to as a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments in this update (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments also narrow the definition of the term "output" so that the term is consistent with how outputs are described in the new guidance for revenue recognition. The guidance was applied prospectively for Ball on January 1, 2018, and did not have an impact on the company's unaudited condensed consolidated financial statements.

Statement of Cash Flows

In November 2016, accounting guidance was issued requiring the statement of cash flows to reconcile the change in the total of cash, cash equivalents and restricted cash or restricted cash equivalents. This guidance was applied retrospectively on January 1, 2018, and the impact on the 2017 statement of cash flow was not material. The impact on the 2016 statement of cash flows was material due to approximately $2 billion of restricted cash held by the company at December 2015, in an acquisition escrow account. In July 2016, the funds in the escrow account were used to pay a portion of the cash component of the acquisition price of Rexam. The impact on the statement of cash flows for the three months ended March 31, 2017, was a $3 million reduction in cash flows from operating activities.

In August 2016, accounting guidance was issued addressing the following eight specific cash flow issues:

- Debt prepayment or debt extinguishment costs
- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing
- Contingent consideration payments made after a business combination
- Proceeds from the settlement of insurance claims

- Proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies)
- Distributions received from equity method investees
- Beneficial interests in securitization transactions
- Separately identifiable cash flows and, for cash flows with aspects of more than one class which are not separately identifiable, classification based on the predominant source for those cash flows

This guidance was applied retrospectively on January 1, 2018, and did not have a material impact on the company's unaudited condensed consolidated statement of cash flows.

Intra-Entity Transfers

In October 2016, amendments to existing accounting guidance were issued that require entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, as opposed to when the asset is sold to an unrelated third party. The amendments also eliminate the exception for an intra-entity transfer of an asset other than inventory. This guidance was applied on a modified retrospective basis on January 1, 2018, and did not have a material impact on the company's unaudited condensed consolidated financial statements.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

Financial Assets and Liabilities

In January 2016, accounting guidance was issued on the classification and measurement of financial assets and liabilities (equity securities and financial liabilities) under the fair value option and the presentation and disclosure requirements for financial instruments. Subsequent guidance was issued in February 2018 to clarify certain aspects of the guidance issued in January 2016. The guidance modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any related changes in fair value in net income unless the investments qualify for the new practicality exception. An exception applies to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under the guidance and, as such, these investments may be measured at cost. The guidance was applied on January 1, 2018, and did not have a material impact on the company's unaudited condensed consolidated financial statements.

New Accounting Guidance

Stranded Tax Effects

In February 2018, accounting guidance was issued to permit the reclassification from accumulated other comprehensive income to retained earnings of stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act signed into law in December 2017. The guidance is effective for Ball on January 1, 2019, and the company is currently assessing whether or not to early adopt the new guidance.

Financial Assets

In June 2016, amendments to existing guidance were issued requiring financial assets or a group of financial assets measured at amortized cost basis to be presented at the net amount expected to be collected when finalized. The allowance for credit losses is a valuation account that will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. This guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have the contractual right to receive cash. The guidance will be effective on January 1, 2020. The company is currently assessing the impact that the adoption of this new guidance will have on its consolidated financial statements.

Lease Accounting

In February 2016, lease accounting guidance was issued which, for operating leases, will require a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on its balance sheet. The guidance also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis.

We have established a cross-functional implementation team, which includes representatives from all of our business segments. We are utilizing a bottoms-up approach to analyze the impact of the new standard by reviewing our current lease population, including completeness, to identify potential accounting, data and other operational changes that might be required under the new guidance. In addition, we are assessing changes to our business processes, systems and controls to support recognition and disclosure under the standard upon adoption. The guidance will be effective for Ball on January 1, 2019, and it is expected that a material amount of lease assets and liabilities will be recorded on its consolidated balance sheet.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

3. Business Segment Information

Ball's operations are organized and reviewed by management along its product lines and geographical areas and presented in the five reportable segments outlined below:

Beverage packaging, North and Central America: Consists of operations in the U.S., Canada and Mexico that manufacture and sell metal beverage containers throughout those countries.

Beverage packaging, South America: Consists of operations in Brazil, Argentina and Chile that manufacture and sell metal beverage containers throughout most of South America.

Beverage packaging, Europe: Consists of operations in numerous countries in Europe, including Russia, that manufacture and sell metal beverage containers throughout most of Europe.

Food and aerosol packaging: Consists of operations in the U.S., Europe, Canada, Mexico, Argentina and India that manufacture and sell steel food and aerosol containers, extruded aluminum aerosol containers and aluminum slugs.

Aerospace: Consists of operations that manufacture and sell aerospace and other related products and provide services used in the defense, civil space and commercial space industries.

As presented below, other consists of non-reportable segments in Africa, Middle East and Asia (AMEA) and Asia Pacific that manufacture and sell metal beverage containers, undistributed corporate expenses, intercompany eliminations and other business activities.

The accounting policies of the segments are the same as those in the consolidated financial statements and are discussed in Note 1. The company also has investments in operations in Guatemala, Panama, South Korea, the U.S. and Vietnam that are accounted for under the equity method of accounting and, accordingly, those results are not included in segment sales or earnings.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

Summary of Business by Segment

($ in millions)	Three Months Ended March 31, 2018	2017
Net sales		
Beverage packaging, North and Central America	$ 1,035	$ 949
Beverage packaging, South America	459	371
Beverage packaging, Europe	609	508
Food and aerosol packaging	275	272
Aerospace	264	236
Reportable segment sales	2,642	2,336
Other	143	137
Net sales	$ 2,785	$ 2,473
Comparable operating earnings		
Beverage packaging, North and Central America	$ 113	$ 123
Beverage packaging, South America	98	58
Beverage packaging, Europe	60	47
Food and aerosol packaging	23	21
Aerospace	25	21
Reportable segment comparable operating earnings	319	270
Reconciling items		
Other (a)	(19)	(31)
Business consolidation and other activities	(30)	(55)
Amortization of acquired Rexam intangibles	(44)	(32)
Earnings before interest and taxes	226	152
Interest expense	(73)	(68)
Debt refinancing and other costs	(1)	—
Total interest expense	(74)	(68)
Earnings before taxes	152	84
Tax (provision) benefit	(34)	(22)
Equity in results of affiliates, net of tax	7	8
Net earnings	125	70
Net earnings attributable to noncontrolling interests	—	(2)
Net earnings attributable to Ball Corporation	$ 125	$ 68

(a) Includes undistributed corporate expenses, net, of $22 million and $45 million for the first quarters of 2018 and 2017, respectively.

The company does not disclose total assets by segment as it is not provided to the chief operating decision makers.

4. Revenue from Contracts with Customers

Disaggregation of Sales

The company disaggregates net sales by reportable segments as disclosed in Note 3, and based on the timing of transfer of control for goods and services as explained below. The transfer of control for goods and services may occur at a point in time or over time; in other words, sales may be recognized over the course of the underlying contract, or they may occur at a single point in time based upon the transfer of control. This distinction is discussed in further detail below. The company determined that disaggregating sales into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of sales and cash flows are affected by economic factors. As noted in the segment information footnote, the company's business consists of five reportable segments, which encompass

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

disaggregated product lines and geographical areas: (1) beverage packaging, North and Central America; (2) beverage packaging, South America; (3) beverage packaging, Europe; (4) food and aerosol packaging; and (5) aerospace.

The following table disaggregates the company's net sales based on the timing of transfer of control:

	Three Months Ended March 31, 2018		
($ in millions)	Point in Time	Over Time	Total
Total net sales	$ 662	$ 2,123	$ 2,785

Contract Balances

The company enters into contracts to sell beverage packaging, food and aerosol packaging, and aerospace products. The payment terms and conditions in customer contracts vary. Those customers that prepay are represented by the contract liabilities below until the performance obligations are satisfied. Contract assets would exist when sales have been recorded (i.e., control of the goods or services has been transferred to the customer) but customer payment is contingent on a future event beyond the passage of time (i.e., satisfaction of additional performance obligations). The company does not have any contract assets. Unbilled receivables, which are not classified as contract assets, represent arrangements in which sales have been recorded prior to billing and right to payment is unconditional. The opening and closing balances of the company's current and noncurrent contract liabilities are as follows:

($ in millions)	Contracts Liabilities (Current)	Contract Liabilities (Noncurrent)
Balance at December 31, 2017	$ 45	$ —
Increase	7	6
Balance at March 31, 2018	$ 52	$ 6

The amounts of sales recognized in the period that were included in the opening contract liabilities balances were $42 million, all of which related to current contract liabilities. Contract liabilities increased by $13 million, which is net of cash received of $55 million and amounts recognized as sales during the period. The difference between the opening and closing balances of the company's contract liabilities primarily results from the timing difference between the company's performance and the customer's payment. Current contract liabilities are classified within other current liabilities on the unaudited condensed consolidated balance sheet and noncurrent contract liabilities are classified within other liabilities.

The company also recognized sales of $4 million from performance obligations satisfied (or partially satisfied) in prior periods. This amount of sales is a result of changes in the transaction price of the company's contracts with customers.

Contract Costs

The company has determined that there are no material costs that meet the capitalization criteria for costs to obtain or fulfill a contract.

Practical Expedients

For the company's contracts that have an original duration of one year or less, the company elected the practical expedient applicable to such contracts and has not disclosed the transaction price for the future performance obligations as of the end of each reporting period or when the company expects to recognize sales.

The company has elected the sales tax practical expedient; therefore, sales and other taxes assessed by a governmental authority that are collected concurrent with revenue-producing activities are excluded from the transaction price.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

For shipping and handling activities performed after a customer obtains control of the goods, the company has elected to account for these costs as activities to fulfill the promise to transfer the goods; therefore, these activities are not assessed as separate performance obligations.

The company has also elected the significant financing component practical expedient which allows the company to not assess whether the contract has a significant financing component if, at contract inception, the expectation is that the contract duration is less than one year.

Beverage Packaging and Food and Aerosol Products

Performance Obligations

At contract inception, the company assesses the goods and services promised in its contracts with customers and identifies a performance obligation for each promise to transfer goods or services to the customer. The performance obligation may be represented by a good or service (or series of goods or services) that is distinct, or by a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. In each instance, the company treats the promise to transfer the customer goods or services as a single performance obligation.

To identify the performance obligations, the company considers all of the goods or services promised in the contract, regardless of whether they are explicitly stated or are implied by customary business practices.

The company has determined that the following distinct goods and services represent separate performance obligations:

- Manufacture of food and aerosol containers, which may be generic or unique
- Manufacture of beverage cans, which may be generic or unique
- Manufacture of beverage, food, and aerosol lids and ends, which may be generic or unique

Performance obligations for products with no alternative use are recognized over time, when the company has manufactured a unique item and has an enforceable right to payment. Conversely, generic products with alternative use are recognized at a point in time. Contracts may be short-term or long-term, with varying payment terms. Our payment terms vary by the type and location of our customer and the products or services offered. Customers pay in accordance with negotiated terms, which are typically triggered upon ownership transfer. All payment terms are less than one year. For these contracts, the transaction price is determined upon establishment of the contract that contains the final terms of the sale, including the description, quantity, and price of each product or service purchased.

Transaction Price Allocated to Remaining Performance Obligations

In the context of the revenue recognition standard, enforceable contracts are those that have an enforceable right to payment, which Ball typically has once a binding forecast or purchase order (or similar evidence) is in place and Ball produces under the contract. Within Ball’s packaging segments, enforceable contracts as defined all have a duration of less than one year. Contracts that have an original duration of less than one year are excluded from the requirement to disclose remaining performance obligations based on the company’s election to use the practical expedient. The nature of the remaining performance obligations within these contracts, as well as the nature of the variability and how it will be resolved, are described in the section below.

Significant Judgments

Timing of Recognition

Within the beverage packaging and food and aerosol segments, performance obligations are recognized both over time and at a point in time. The determination that sales should be recognized at a point in time most often results from the existence of an alternative use for the product. Cans and ends that are not customized prior to delivery are considered to have alternative use and sales are recognized at the point of control transfer. Determining when control transfer occurs requires management to make judgments that affect the timing of when sales are recognized. The new revenue

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

accounting standard provides five indicators that a customer has obtained control of an asset: 1) present right to payment; 2) transfer of legal title; 3) physical possession; 4) significant risks and rewards of ownership; and 5) customer acceptance. The company considers control to have transferred for these products upon shipment or delivery, depending on the legal terms of the contract, because the company has a present right to payment at that time, the customer has legal title to the asset, the company has transferred physical possession of the asset or the customer has significant risks and rewards of ownership of the asset. The company determines that control transfers to a customer as described above and provides a faithful depiction of the transfer of goods.

For performance obligations related to products that are specialized with no alternative use (e.g., specialized sizes or customer-specific materials, or labeled with customer-specific artwork), the company transfers control and records sales over time. The recognition of sales occurs over time as goods are manufactured and Ball has an enforceable right to payment for those goods, which is an output method. Determining a measure of progress requires management to make judgments that impact the timing of when sales are recognized. The company has determined the above provides a faithful depiction of the transfer of goods to the customer. The number of units manufactured that have an enforceable right to payment is the best measure of depicting the company's performance as control is transferred. The customer obtains value as each unit is produced against a binding contract.

The enforceable right to payment may be explicit or implied in the contract. If the enforceable right to payment is not explicit in the contract, Ball must consider if there is an implied right based on customer relationships or previous business practices and applicable law. Typically, Ball has an enforceable right to payment of costs plus a reasonable margin once a binding forecast or purchase order (or similar evidence) is in place and Ball produces under the contract.

Determining the Transaction Price including Variable Consideration

In making its determination of stand-alone selling price, Ball maximizes its use of observable inputs. Stand-alone selling price is then used to allocate total consideration proportionally to the various performance obligations within a contract.

To estimate variable consideration, we may apply both the "expected value" method and "most likely amount" method based on the form of variable consideration, according to which method would provide the best prediction of consideration to be received from our customers. The expected value method involves a probability-weighted determination of the expected amount, whereas the most likely amount method identifies the single most likely outcome in a range of possible amounts. In certain cases, both methods may be used within a single contract if multiple forms of variable consideration exist. However, once a method has been applied to one form of variable consideration, it is applied consistently throughout the contract term.

The primary types of variable consideration present in the company’s contracts are per-unit price changes, volume discounts and rebates. Once variable consideration has been estimated, it will be constrained if a significant reversal of the cumulative amounts of sales is probable in the context of the contract.

Aerospace

Performance Obligations

At contract inception, the company assesses the goods and services promised in its contracts with customers and identifies a performance obligation for each promise to transfer goods or services to the customer. The performance obligation may be represented by a good or service (or a series of goods or services) that is distinct, or by a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. In each of these scenarios, the company treats the promise to transfer the customer goods or services as a single performance obligation.

To identify its performance obligations, the company considers all of the goods or services promised in the contract, regardless of whether they are explicitly stated or are implied by customary business practices.

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

The company has determined that the following distinct goods and services represent separate performance obligations:

- Manufacture and delivery of distinct spacecraft and/or hardware components;
- Research reports, for contracts under which such reports are the sole or primary deliverables;
- Design, add-on, or special studies for contracts under which such studies have stand-alone value or for which a material right exists due to discounted pricing; and
- Warranty and performance guarantees beyond standard repair/replacement.

Performance obligations with no alternative use are recognized over time, when the company has an enforceable right to payment for efforts completed to-date. 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. Our payment terms vary by the type and location of our customer and the products or services offered. All payment terms are less than one year.

Contracts are often modified to account for changes in contract specifications and requirements. We consider contract modifications to exist when the modification either creates new or revised enforceable rights and obligations. Most of our contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract, and such contract modifications are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to sales (either as an increase or reduction of sales) on a cumulative catch-up basis.

Transaction Price Allocated to Remaining Performance Obligations

The table below discloses: (1) the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period for contracts with an original duration of greater than one year and (2) when the company expects to record sales on these multi-year contracts.

($ in millions)	Rolling Twelve	Thereafter	Total

	Months		
Sales expected to be recognized on multi-year contracts in place as of March 31, 2018	$ 862	$ 777	$ 1,639

The contracts with original durations of less than one year, which are excluded from the table above based on the company's election of the practical expedient, are primarily related to contracts where control will be fully transferred to the customers in less than one year. The nature of the remaining performance obligations within these contracts, as well as the nature of the variability and how it will be resolved, are described in the section below.

Significant Judgments

Timing of Recognition

Within the aerospace segment, performance obligations are recognized over time. Aerospace contracts involve specialized and unique products that are tailored to the specific needs of the customer, such as a spacecraft or other hardware conforming to the specifications required by the customer, and as such, no alternative use exists. When there is an enforceable right to payment at cost plus reasonable margin for performance completed to-date, the sales are recorded over time as the goods are manufactured or services are performed. Determining a measure of progress requires management to make judgments that affect the timing of recording sales. Sales under long-term contracts in the aerospace segment are primarily recognized using percentage-of-completion under the cost-to-cost method of accounting, which is an input method. Under this method, the extent of progress towards completion is measured based on the ratio of costs incurred to date versus the total estimated costs upon completion of the performance obligation. The cost-to-cost method best depicts the transfer of assets to the customer as we incur costs on our contracts. The two primary types of long-term sales contracts utilized are cost-type contracts, which are agreements to perform for cost plus

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

an agreed-upon profit component, and fixed price sales contracts, which are completed for a fixed price. 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, we estimate sales associated with base, incentive and other fees exclusive of any constraint. In other words, we estimate sales to the extent that it is not probable a significant reversal would occur over the period of contract performance. The company has determined that the above provides a faithful depiction of the transfer of goods to the customer, and is the best measure of depicting the company's performance as control is transferred to customers.

Determining the Transaction Price including Variable Consideration

Due to the unique and customized nature of deliverables within aerospace contracts, a readily observable selling price for a similar good is not typically available; therefore, in making its determination of stand-alone selling price, the company generally applies the "expected cost plus a margin" approach (whereby the transaction price is allocated based on the relative amount of costs plus an appropriate margin). Use of the expected cost plus a margin approach requires Ball to determine the expected costs for each performance obligation, as well as an appropriate margin (i.e., cost to cost percentage of completion). The calculation is made at contract inception to determine the allocation of consideration.

Uncertainty as to the total amount that will be paid by the customer (such as the exact amount of costs that will be incurred and fees that will be earned by Ball Aerospace to satisfy the contractual requirements) gives rise to variable consideration. To estimate variable consideration, we typically apply the "most likely amount" method or the "expected value" method depending on the nature of the variable consideration. The most likely amount method identifies the single most likely outcome in a range of possible amounts, while the expected value method involves a probability-weighted determination of the expected amount. The most likely amount method is used primarily when the possible outcomes are binary (i.e., either the cost/fee will be incurred or it will not). In certain cases, both methods may be used within a single contract if multiple forms of variable consideration exist. However, once a method has been applied to one form of variable consideration, it is applied consistently throughout the contract term.

The primary types of variable consideration present in the company's contracts are cost reimbursements, performance award fees, incremental funding and finalization of government rates. These types of arrangements are most commonly (though not exclusively) estimated based on the "most likely" method. Once variable consideration has been estimated, it will be constrained if a significant reversal of the cumulative amount of sales is probable in the context of the contract.

5. Business Consolidation and Other Activities

The following is a summary of business consolidation and other activity (charges)/income included in the unaudited condensed consolidated statements of earnings:

	Three Months Ended March 31,	
($ in millions)	2018	2017
Beverage packaging, North and Central America	$ (3)	$ (4)
Beverage packaging, South America	—	3
Beverage packaging, Europe	(10)	(3)
Food and aerosol packaging	—	10
Other	(17)	(61)
	$ (30)	$ (55)

2018

Beverage Packaging, North and Central America

During the first quarter of 2018, the company recorded income of $5 million for revised estimates of charges recorded in prior periods in connection with the previously announced closures of its beverage can manufacturing facilities in Chatsworth, California, and Longview, Texas, and its beverage end manufacturing facility in Birmingham, Alabama.

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

The Birmingham and Longview plants are expected to cease production by the end of the second quarter of 2018, and the Chatsworth plant is expected to cease production by the end of the third quarter of 2018. The majority of the charges are expected to be paid prior to the plants ceasing production.

During the first quarter of 2018, the company recorded charges of $2 million related to the closure of its Reidsville, North Carolina, plant, which ceased production in 2017.

Other charges in the first quarter included $6 million for individually insignificant activities.

Beverage Packaging, Europe

During the first quarter of 2018, the company recorded charges of $4 million for employee severance and benefits and $6 million for facility shutdown costs and other costs in connection with the closure of its Recklinghausen, Germany, plant which ceased production during the third quarter of 2017. The majority of the closure costs are expected to be paid by the end of 2018.

Corporate and Other

During the first quarter of 2018, the company recorded expense of $11 million for long-term incentive and other compensation arrangements associated with the Rexam acquisition.

Other charges in the first quarter included $6 million for individually insignificant activities.

2017

Beverage Packaging, North and Central America

During the first quarter of 2017, the company recorded charges of $3 million for employee severance and accelerated depreciation related to the closure of its Reidsville, North Carolina, plant.

Other charges in the first quarter included $1 million for individually insignificant activities.

Beverage Packaging, South America

Income in the first quarter of 2017 included $3 million for individually insignificant activities.

Beverage Packaging, Europe

During the first quarter of 2017, the company recorded charges of $2 million for professional services and other costs associated with the acquisition of Rexam.

Other charges in the first nine months of 2017 included $1 million for individually insignificant activities.

Food and Aerosol Packaging

During the first quarter of 2017, the company recorded charges of $3 million for facility shutdown costs and accelerated depreciation for the closure of its Weirton, West Virginia, plant, which ceased production during the first quarter of 2017.

During the first quarter of 2017, the company sold its food and aerosol packaging paint and general line can plant in Hubbard, Ohio, and recorded a gain on sale of $15 million.

Other charges in the first quarter included $2 million for individually insignificant activities.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

Corporate and Other

During the first quarter of 2017, the company recorded the following amounts:

· Expense of $27 million for the estimated amount of claims covered by the indemnification for certain tax matters provided to the buyer of the businesses divested (Divestment Business) in connection with the 2016 Rexam acquisition.
· A $14 million reduction in the gain recognized in connection with the sale of the Ball portion of the Divestment Business.
· Expense of $9 million for long-term incentive and other compensation arrangements associated with the Rexam acquisition.
· Expense of $5 million for professional services and other costs associated with the acquisition of Rexam.
· Expense of $6 million for individually insignificant activities.

Following is a summary by segment for the restructuring liabilities recorded in connection with business consolidation activities:

($ in millions)	Beverage Packaging, North & Central America	Beverage Packaging, Europe	Food & Aerosol Packaging	Total
Balance at December 31, 2017	$ 26	$ 41	$ 1	$ 68
Charges in earnings	(5)	10	—	5
Cash payments and other activity	(1)	(33)	(1)	(35)
Balance at March 31, 2018	$ 20	$ 18	$ —	$ 38

6.Cash, Cash Equivalents and Restricted Cash

March 31,

($ in millions)	2018	2017
Beginning of period:		
Cash and cash equivalents	$ 448	$ 597
Current restricted cash (included in other current assets)	10	9
Noncurrent restricted cash (included in other assets)	1	1
Total cash, cash equivalents and restricted cash	$ 459	$ 607
End of period:		
Cash and cash equivalents	$ 477	$ 458
Current restricted cash (included in other current assets)	8	6
Noncurrent restricted cash (included in other assets)	1	1
Total cash, cash equivalents and restricted cash	$ 486	$ 465

The company's restricted cash is primarily related to receivables factoring programs and represents amounts collected from customers not yet remitted to the banks as of the end of the reporting period.

Noncash investing activities include the acquisition of property, plant and equipment (PP&E) for which payment has not been made. These noncash capital expenditures are excluded from the statement of cash flows. The PP&E acquired but not yet paid for amounted to $97 million at March 31, 2018 and $124 million at December 31, 2017.

In connection with the sale of a business in connection with the June 2016 acquisition of Rexam, the company provided indemnifications for uncertain tax positions associated with the business. During the first quarter of 2018, the company made payments of $45 million in relation to these liabilities and reported them within investing activities in the unaudited condensed consolidated statement of cash flows.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

7. Receivables

($ in millions)	March 31, 2018	December 31, 2017
Trade accounts receivable	$ 1,332	$ 1,206
Unbilled receivables	429	147
Less allowance for doubtful accounts	(10)	(10)
Net trade accounts receivable	1,751	1,343
Other receivables	339	291
	$ 2,090	$ 1,634

Unbilled receivables at March 31, 2018, include the effect of adopting new revenue recognition accounting guidance as of January 1, 2018. Further details of the new guidance and its adoption are included in Notes 2 and 4.

The company has entered into several regional committed and uncommitted accounts receivable factoring programs with various financial institutions for certain receivables of the company. The programs are accounted for as true sales of the receivables, without recourse to Ball, and had combined limits of approximately $800 million at March 31, 2018. A total of $211 million and $439 million were available for sale under these programs as of March 31, 2018, and December 31, 2017, respectively.

8. Inventories

($ in millions)	March 31, 2018	December 31, 2017
Raw materials and supplies	$ 719	$ 691
Work-in-process and finished goods	794	902

Less inventory reserves	(66)	(67)
	$ 1,447	$ 1,526

Finished goods at March 31, 2018, include the effect of adopting new revenue recognition accounting guidance as of January 1, 2018. Further details of the new guidance and its adoption are included in Notes 2 and 4.

9. Property, Plant and Equipment

($ in millions)	March 31, 2018	December 31, 2017
Land	$ 174	$ 172
Buildings	1,391	1,390
Machinery and equipment	5,378	5,282
Construction-in-progress	666	542
	7,609	7,386
Accumulated depreciation	(2,882)	(2,776)
	$ 4,727	$ 4,610

Property, plant and equipment are stated at historical or acquired cost. Depreciation expense amounted to $125 million and $107 million for the three months ended March 31, 2018 and 2017, respectively.

Table of Contents

Ball Corporation

Notes to the Unaudited Condensed Consolidated Financial Statements

10. Goodwill