Ingredion Inc
Form 10-Q
April 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2016

or

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

For the transition period from to

COMMISSION FILE NUMBER 1-13397

Ingredion Incorporated

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

22-3514823

(I.R.S. Employer Identification Number)

5 WESTBROOK CORPORATE CENTER

| | |
|---|---|
| WESTCHESTER, ILLINOIS | 60154 |
| (Address of principal executive offices) | (Zip Code) |

(708) 551-2600

(Registrant's telephone number, including area code)

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

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

Yes No

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

Yes No

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

(Check one):

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | Smaller reporting company |

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

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

| CLASS | OUTSTANDING AT APRIL 28, 2016 |
|---|---|
| Common Stock, $.01 par value | 71,987,000 shares |

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Statements of Income

(Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| (in millions, except per share amounts) | 2016 | 2015 |
| Net sales before shipping and handling costs | $ 1,434 | $ 1,410 |
| Less - shipping and handling costs | 74 | 80 |
| Net sales | 1,360 | 1,330 |
| Cost of sales | 1,021 | 1,049 |
| Gross profit | 339 | 281 |
| | | |
| Operating expenses | 138 | 132 |
| Other (income) expense, net | 1 | (1) |
| Restructuring charge | — | 10 |
| | | |
| Operating income | 200 | 140 |
| | | |
| Financing costs-net | 14 | 14 |
| | | |
| Income before income taxes | 186 | 126 |
| Provision for income taxes | 56 | 40 |
| Net income | 130 | 86 |
| Less - Net income attributable to non-controlling interests | 3 | 2 |
| Net income attributable to Ingredion | $ 127 | $ 84 |
| | | |
| Weighted average common shares outstanding: | | |
| Basic | 72.0 | 71.6 |
| Diluted | 73.3 | 72.7 |

| | | |
|---|---|---|
| Earnings per common share of Ingredion: | | |
| Basic | $ 1.77 | $ 1.17 |
| Diluted | $ 1.73 | $ 1.15 |

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

| (in millions) | Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| Net income | $ 130 | $ 86 |
| Other comprehensive income (loss): | | |
| Losses on cash-flow hedges, net of income tax effect of $6 and $6, respectively | (11) | (14) |
| Amount of losses on cash-flow hedges reclassified to earnings, net of income tax effect of $3 and $4, respectively | 7 | 10 |
| Actuarial gain on pension and other postretirement obligations, settlements and plan amendments, net of income tax effect of $2 in 2015 | — | 7 |
| Currency translation adjustment | 39 | (146) |
| Comprehensive income (loss) | $ 165 | $ (57) |
| Comprehensive income attributable to non-controlling interests | (3) | (2) |
| Comprehensive income (loss) attributable to Ingredion | $ 162 | $ (59) |

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated ("Ingredion")

Condensed Consolidated Balance Sheets

| (in millions, except share and per share amounts) | March 31, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 477 | $ 434 |
| Short-term investments | 20 | 6 |
| Accounts receivable — net | 786 | 775 |
| Inventories | 756 | 715 |
| Prepaid expenses | 29 | 20 |
| Total current assets | 2,068 | 1,950 |
| | | |
| Property, plant and equipment - net of accumulated depreciation of $2,723 and $2,642, respectively | 2,014 | 1,989 |
| Goodwill | 606 | 601 |
| Other intangible assets (less accumulated amortization of $89 and $82, respectively) | 404 | 410 |
| Deferred income tax assets | 5 | 7 |
| Other assets | 131 | 117 |
| Total assets | $ 5,228 | $ 5,074 |
| | | |
| Liabilities and equity | | |
| Current liabilities: | | |
| Short-term borrowings | $ 15 | $ 19 |
| Accounts payable and accrued liabilities | 678 | 723 |
| Total current liabilities | 693 | 742 |
| | | |
| Non-current liabilities | 178 | 170 |
| Long-term debt | 1,872 | 1,819 |
| Deferred income tax liabilities | 141 | 139 |

| | | |
|---|---|---|
| Share-based payments subject to redemption | 17 | 24 |
| Ingredion stockholders' equity | | |
| Preferred stock — authorized 25,000,000 shares-$0.01 par value, none issued | — | — |
| Common stock — authorized 200,000,000 shares-$0.01 par value, 77,810,875 issued at March 31, 2016 and December 31,2015, respectively | 1 | 1 |
| Additional paid-in capital | 1,154 | 1,160 |
| Less - Treasury stock (common stock: 5,844,332 and 6,194,510 shares at March 31, 2016 and December 31,2015, respectively) at cost | (444) | (467) |
| Accumulated other comprehensive loss | (1,067) | (1,102) |
| Retained earnings | 2,647 | 2,552 |
| Total Ingredion stockholders' equity | 2,291 | 2,144 |
| Non-controlling interests | 36 | 36 |
| Total equity | 2,327 | 2,180 |
| Total liabilities and equity | $ 5,228 | $ 5,074 |

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated ("Ingredion")

Condensed Consolidated Statements of Equity and Redeemable Equity

(Unaudited)

| | Total Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| (in millions) | Common Stock | Additional Paid-In Capital | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Non-Controlling Interests | Share-based Payments Subject Redemption |
| Balance, December 31, 2015 | $ 1 | $ 1,160 | $ (467) | $ (1,102) | $ 2,552 | $ 36 | $ 24 |
| Net income attributable to Ingredion | | | | | 127 | | |
| Net income attributable to non-controlling interests | | | | | | 3 | |
| Dividends declared | | | | | (32) | (3) | |
| Losses on cash-flow hedges, net of income tax effect of $6 | | | | (11) | | | |
| Amount of losses on cash-flow hedges reclassified to earnings, net of income tax effect of $3 | | | | 7 | | | |
| Repurchases of common stock | | (7) | | | | | |
| Issuance of common stock on exercise of stock options | | (6) | 14 | | | | |
| Share-based compensation | | 7 | 9 | | | | (7) |
| Currency translation adjustment | | | | 39 | | | |
| Balance, March 31, 2016 | $ 1 | $ 1,154 | $ (444) | $ (1,067) | $ 2,647 | $ 36 | $ 17 |

| (in millions) | Total Equity Common Stock | Additional Paid-In Capital | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Non-Controlling Interests | Share-based Payments Subject to Redemption |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2014 | $ 1 | $ 1,164 | $ (481) | $ (782) | $ 2,275 | $ 30 | $ 22 |
| Net income attributable to Ingredion | | | | | 84 | | |
| Net income attributable to non-controlling interests | | | | | | 2 | |
| Dividends declared | | | | | (30) | (2) | |
| Losses on cash-flow hedges, net of income tax effect of $6 | | | | (14) | | | |
| Amount of losses on cash-flow hedges reclassified to earnings, net of income tax effect of $4 | | | | 10 | | | |
| Repurchases of common stock | | (6) | (18) | | | | |
| Issuance of common stock on exercise of stock options | | | 3 | | | | |
| Share-based compensation | | 5 | 11 | | | | (7) |
| Actuarial gains on pension and postretirement obligations, settlements and plan amendments, net of income tax effect of $2 | | | | 7 | | | |
| Currency translation adjustment | | | | (146) | | | |
| Balance, March 31, 2015 | $ 1 | $ 1,163 | $ (485) | $ (925) | $ 2,329 | $ 30 | $ 15 |

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) | Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| Cash provided by operating activities: | | |
| Net income | $ 130 | $ 86 |
| Non-cash charges to net income: | | |
| Depreciation and amortization | 47 | 47 |
| Charge for fair value mark-up of acquired inventory | — | 3 |
| Other | 24 | 18 |
| Changes in working capital: | | |
| Accounts receivable and prepaid expenses | (21) | (28) |
| Inventories | (32) | (14) |
| Accounts payable and accrued liabilities | (55) | (40) |
| Decrease (increase) in margin accounts | 12 | (8) |
| Other | (9) | 5 |
| Cash provided by operating activities | 96 | 69 |
| | | |
| Cash used for investing activities: | | |
| Payments for acquisitions, net of cash acquired of $16 | — | (332) |
| Capital expenditures, net of proceeds on disposals | (59) | (58) |
| Short-term investments | (13) | (3) |
| Other | (1) | — |
| Cash used for investing activities | (73) | (393) |
| | | |
| Cash provided by (used for) financing activities: | | |

| | | |
|---|---|---|
| Proceeds from borrowings | 84 | 435 |
| Payments on debt | (44) | (38) |
| Issuance (repurchase) of common stock, net | 1 | (21) |
| Dividends paid (including to non-controlling interests) | (35) | (32) |
| Excess tax benefit on share-based compensation | 3 | 2 |
| Cash provided by financing activities | 9 | 346 |
| | | |
| Effects of foreign exchange rate changes on cash | 11 | (29) |
| Increase (decrease) in cash and cash equivalents | 43 | (7) |
| Cash and cash equivalents, beginning of period | 434 | 580 |
| Cash and cash equivalents, end of period | $ 477 | $ 573 |

See Notes to Condensed Consolidated Financial Statements

INGREDION INCORPORATED (“Ingredion”)

Notes to Condensed Consolidated Financial Statements

## 1.Interim Financial Statements

References to the “Company” are to Ingredion Incorporated (“Ingredion”) and its consolidated subsidiaries. These statements should be read in conjunction with the consolidated financial statements and the related notes to those statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

The unaudited condensed consolidated interim financial statements included herein were prepared by management on the same basis as the Company’s audited consolidated financial statements for the year ended December 31, 2015 and reflect all adjustments (consisting solely of normal recurring items unless otherwise noted) which are, in the opinion of management, necessary for the fair presentation of results of operations and cash flows for the interim periods ended March 31, 2016 and 2015, and the financial position of the Company as of March 31, 2016. The results for the interim periods are not necessarily indicative of the results expected for the full years.

## 2.New Accounting Standards

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 introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This Update also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The standard will allow various transition approaches upon adoption. We are assessing the impacts of this new standard; however, the adoption of the guidance in this Update is not expected to have a material impact on our Consolidated Financial Statements.

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

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This Update requires, among other things, that equity investments having readily determinable fair values be measured at fair value with changes recognized in net income rather than other comprehensive income. Equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this Update. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments in this Update are to be applied using a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. We do not expect that the adoption of the guidance in this Update will have a material impact on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes Topic 840, Leases. This Update increases the transparency and comparability of organizations by recognizing lease assets and lease liabilities on the balance sheet for leases longer than 12 months and disclosing key information about leasing arrangements. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed. This Update is effective for annual periods beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective transition. We are currently assessing the method of adoption and the impact of this Update on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This update simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This update is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2016, with early adoption permitted. We are assessing the impacts of this new standard; however, the adoption of the guidance in this Update is not expected to have a material impact on our Consolidated Financial Statements.

3.Acquisitions

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

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

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

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

The identifiable intangible assets for the Kerr acquisition include items such as customer relationships, trade names, and noncompetition agreements. The fair values of these intangible assets were determined to be Level 3 under the fair value hierarchy. Level 3 inputs are unobservable inputs for an asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for an asset or liability at the measurement date. The following table presents the fair values, valuation techniques, and estimated remaining useful life for these Level 3 measurements (dollars in millions):

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

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

The Company also incurred $1 million and $4 million of pre-tax acquisition and integration costs for the three months ended March 31, 2016 and March 31, 2015, respectively, associated with the Kerr acquisition and the prior year acquisition of Penford Corporation.

4.Restructuring Charges

On September 8, 2015, the Company announced that it plans to consolidate its manufacturing network in Brazil. Plants in Trombudo Central and Conchal will be closed and production will be moved to plants in Balsa Nova and Mogi Guaçu, respectively. The consolidation should be complete by the end of 2016. The Company did not record any restructuring charges in the first quarter of 2016. Additional restructuring costs, although not expected to be significant, could be incurred in the future as part of the plant shutdowns.

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

A summary of the Company's severance accrual at March 31, 2016 is as follows (in millions):

| | |
|---|---|
| Balance in severance accrual at December 31, 2015 | $ 10 |
| Payments made to terminated employees | (2) |
| Balance in severance accrual at March 31, 2016 | $ 8 |

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

5.Segment Information

The Company is principally engaged in the production and sale of starches and sweeteners for a wide range of industries, and is managed geographically on a regional basis. The Company's operations are classified into four reportable business segments: North America, South America, Asia Pacific and Europe, Middle East and Africa ("EMEA"). Its North America segment includes businesses in the United States, Canada and Mexico. The Company's South America segment includes businesses in Brazil, Colombia, Ecuador and the Southern Cone of South America, which includes Argentina, Chile, Peru and Uruguay. Its Asia Pacific segment includes businesses in South Korea, Thailand, Malaysia, China, Japan, Indonesia, the Philippines, Singapore, India, Australia and New Zealand. The Company's EMEA segment includes businesses in the United Kingdom, Germany, South Africa, Pakistan and Kenya.

| | Three Months Ended March 31, | |
|---|---|---|
| (in millions) | 2016 | 2015 |
| Net sales to unaffiliated customers: | | |
| North America | $ 841 | $ 754 |
| South America | 215 | 258 |
| Asia Pacific | 169 | 187 |
| EMEA | 135 | 131 |
| Total | $ 1,360 | $ 1,330 |
| | | |
| Operating income: | | |
| North America | $ 149 | $ 102 |
| South America | 18 | 25 |
| Asia Pacific | 28 | 26 |

| | | |
|---|---|---|
| EMEA | 26 | 22 |
| Corporate | (20) | (18) |
| Subtotal | 201 | 157 |
| Acquisition / integration costs | (1) | (4) |
| Restructuring charges | — | (10) |
| Charge for fair value markup of acquired inventory | — | (3) |
| Total | $ 200 | $ 140 |

| (in millions) | At Mar 31, 2016 | At Dec. 31, 2015 |
|---|---|---|
| Total assets | | |
| North America | $ 3,238 | $ 3,163 |
| South America | 735 | 714 |
| Asia Pacific | 751 | 716 |
| EMEA | 504 | 481 |
| Total | $ 5,228 | $ 5,074 |

6.Financial Instruments, Derivatives and Hedging Activities

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

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

At March 31, 2016, AOCI included $27 million of losses, net of tax of $14 million, pertaining to commodities-related derivative instruments designated as cash-flow hedges. At December 31, 2015, AOCI included $21 million of losses, net of tax of $10 million, pertaining to commodities-related derivative instruments designated as cash-flow hedges.

Interest rate hedging: Derivative financial instruments that have been used by the Company to manage its interest rate risk consist of interest rate swaps and Treasury Lock agreements ("T-Locks"). The Company has interest rate swap agreements that effectively convert the interest rates on its 6.0 percent $200 million senior notes due April 15, 2017, its 1.8 percent $300 million senior notes due September 25, 2017 and on $200 million of its $400 million 4.625 percent senior notes due November 1, 2020, to variable rates. These swap agreements call for the Company to receive interest at the fixed coupon rate of the respective notes and to pay interest at a variable rate based on the six-month US dollar LIBOR rate plus a spread. The Company has designated these interest rate swap agreements as hedges of the changes in fair value of the underlying debt obligations attributable to changes in interest rates and accounts for them as fair-value hedges. Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability in the fair value of outstanding debt obligations are reported in earnings. These amounts offset the gain or loss (that is, the change in fair value) of the hedged debt instrument that is attributable to changes in interest rates (that is, the hedged risk), which is also recognized in earnings. The fair value of these interest rate swap agreements at March 31, 2016 and December 31, 2015 was $15 million and $7 million, respectively, and is reflected in the Condensed Consolidated Balance Sheets within Other assets, with an offsetting amount recorded in Long-term debt to adjust the carrying amount of the hedged debt obligations. The Company did not have any T-locks outstanding at March 31, 2016 or December 31, 2015.

At March 31, 2016 and December 31, 2015, AOCI included $5 million of losses (net of income taxes of $2 million), related to settled T-Locks. These deferred losses are being amortized to financing costs over the terms of the senior notes with which they are associated.

Foreign currency hedging: Due to the Company's global operations, including operations in many emerging markets, it is exposed to fluctuations in foreign currency exchange rates. As a result, the Company has exposure to translational foreign exchange risk when the results of its foreign operations are translated to US dollars and to transactional foreign exchange risk when transactions not denominated in the functional currency are revalued. The Company primarily uses derivative financial instruments such as foreign currency forward contracts, swaps and options to manage its transactional foreign exchange risk. At March 31, 2016, the Company had foreign currency forward sales contracts with an aggregate notional amount of $384 million and foreign currency forward purchase contracts with an aggregate notional amount of $60 million that hedged transactional exposures. At December 31, 2015, the Company had foreign currency forward sales contracts with an aggregate notional amount of $606 million and foreign currency forward purchase contracts with an aggregate notional amount of $287 million that hedged transactional exposures. The fair value of these derivative instruments were liabilities of $18 million at March 31, 2016 and assets of $10 million December 31, 2015.

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

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

Fair Value of Derivative Instruments

| Derivatives designated as hedging instruments: (in millions) | Balance Sheet Location | Fair Value At March 31, 2016 | Fair Value At December 31, 2015 | Balance Sheet Location | Fair Value At March 31, 2016 | Fair Value At December 31, 2015 |
|---|---|---|---|---|---|---|
| Commodity and foreign currency contracts | Accounts receivable-net | $ 6 | $ 6 | Accounts payable and accrued liabilities | $ 38 | $ 33 |
| Commodity and foreign currency contracts | Other assets | 4 | 5 | Non-current liabilities | 4 | 4 |
| Total | | $ 10 | $ 11 | | $ 42 | $ 37 |

At March 31, 2016, the Company had outstanding futures and option contracts that hedged the forecasted purchase of approximately 103 million bushels of corn and 40 million pounds of soybean oil. The Company is unable to directly hedge price risk related to co-product sales; however, it occasionally enters into hedges of soybean oil (a competing product to corn oil) in order to mitigate the price risk of corn oil sales. The Company also had outstanding swap and option contracts that hedged the forecasted purchase of approximately 16 million mmbtu's of natural gas at March 31, 2016. Additionally at March 31, 2016, the Company had outstanding ethanol futures contracts that hedged the forecasted sale of approximately 4 million gallons of ethanol.

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

| Derivatives in Cash-Flow Hedging Relationships | Amount of Gains (Losses) Recognized in OCI Three Months Ended March 31, 2016 | Amount of Gains (Losses) Recognized in OCI Three Months Ended March 31, 2015 | Location of Gains (Losses) Reclassified from AOCI into Income | Amount of Gains (Losses) Reclassified from AOCI into Income Three Months Ended March 31, 2016 | Amount of Gains (Losses) Reclassified from AOCI into Income Three Months Ended March 31, 2015 |
|---|---|---|---|---|---|
| Commodity and foreign currency contracts | $ (17) | $ (20) | Cost of Sales | $ (10) | $ (13) |

| | | | | | |
|---|---|---|---|---|---|
| Interest rate contracts | — | — | Financing costs, net | — | (1) |
| Total | $ (17) | $ (20) | | $ (10) | $ (14) |

At March 31, 2016, AOCI included $27 million of losses (net of income taxes of $14 million) on commodities-related derivative instruments designated as cash-flow hedges that are expected to be reclassified into earnings during the next twelve months. The Company expects the losses to be offset by changes in the underlying commodities costs. The Company also has $1 million of losses on settled T-Locks (net of income taxes of $1 million) recorded in AOCI at March 31, 2016, which are expected to be reclassified into earnings during the next twelve months. Additionally, at March 31, 2016, AOCI included an insignificant amount of losses related to foreign currency hedges that are expected to be reclassified into earnings during the next twelve months.

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

| | As of March 31, 2016 | | | | As of December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions) | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Available for sale securities | $ 6 | $ 6 | $ — | $ — | $ 6 | $ 6 | $ — | $ — |
| Derivative assets | 25 | — | 25 | — | 27 | — | | |