EATON CORP
Form 424B2
May 16, 2008

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Filed Pursuant to Rule 424(b)(2)
Registration No. 333-130318

CALCULATION OF REGISTRATION FEE

Title of Securities Registered	Amount Registered	Aggregate Price Per Unit	Aggregate Offering Price	Registration Fee(1)
Notes due 2013	$300,000,000	99.926%	$299,778,000	$11,782
Notes due 2018	$450,000,000	99.744%	$448,848,000	$17,640

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933.

PROSPECTUS SUPPLEMENT
(To Prospectus Dated December 14, 2005)

$750,000,000

Eaton Corporation
$300,000,000 4.900% Notes due 2013
$450,000,000 5.600% Notes due 2018

The 4.900% Notes due 2013 (the Notes due 2013) will bear interest from May 20, 2008. Interest on the Notes due 2013 will be payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2008. The Notes due 2013 will mature on May 15, 2013. We may redeem the Notes due 2013, in whole or in part, at any time at the make-whole premium redemption price described under Description of Notes Optional Redemption in this prospectus supplement. If a Change of Control Triggering Event as described herein occurs, unless we have exercised our option to redeem the Notes due 2013 by notifying the noteholders to that effect, we will be required to offer to repurchase the Notes due 2013 at the price described in this prospectus supplement.

The 5.600% Notes due 2018 (the Notes due 2018 and, together with the Notes due 2013, the Notes) will bear interest from May 20, 2008. Interest on the Notes due 2018 will be payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2008. The Notes due 2018 will mature on May 15, 2018. We may redeem the Notes due 2018, in whole or in part, at any time at the make-whole premium redemption price described under Description of Notes Optional Redemption in this prospectus supplement. If a Change of Control Triggering Event as described herein occurs, unless we have exercised our option to redeem the Notes due 2018 by notifying the noteholders to that effect, we will be required to offer to repurchase the Notes due 2018 at the price described in this prospectus supplement.

The Notes will be unsecured obligations of our company and will rank equally with all of our other senior unsecured indebtedness from time to time outstanding.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete.

Any representation to the contrary is a criminal offense.

	Per Note Due 2013	Total	Per Note Due 2018	Total
Public Offering Price(1)	99.926%	$ 299,778,000	99.744%	$ 448,848,000
Underwriting Discount	0.600%	$ 1,800,000	0.650%	$ 2,925,000
Proceeds to Eaton Corporation (before expenses)	99.326%	$ 297,978,000	99.094%	$ 445,923,000

(1) Plus accrued interest, if any, from May 20, 2008, if settlement occurs after that date.

The underwriters expect to deliver the Notes to investors in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, Luxembourg (Clearstream Luxembourg) and/or Euroclear Bank S.A./N.V. (Euroclear), on or about May 20, 2008.

Joint Book-Running Managers

Citi **JPMorgan** **Morgan Stanley**

Co-Managers

Goldman Sachs & Co. **UBS Investment Bank**
Banc of America Securities LLC **KeyBanc Capital Markets**

Barclays Capital **BNP PARIBAS** **Deutsche Bank Securities** **Merrill Lynch & Co.**

May 15, 2008

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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Prospectus Supplement

Prospectus

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports and other information with the Securities and Exchange Commission (SEC). You may read and copy any document we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on its public reference rooms. Our SEC filings are also available to the public from the SEC s web site at http://www.sec.gov. Our common shares are listed on the New York Stock Exchange and the Chicago Stock Exchange, and information about us is also available there.

This prospectus supplement is part of a registration statement that we have filed with the SEC. The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to other documents that we identify as part of this prospectus supplement. Our subsequent filings of similar documents with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), until we sell all of these securities.

Annual Report on Form 10-K for the year ended December 31, 2007.

Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.

Current Reports on Form 8-K filed on January 22, 2008, January 31, 2008, March 3, 2008, April 7, 2008, April 21, 2008 and April 28, 2008.

You may obtain a copy of these filings at no cost by writing to or telephoning us at the following address:

Eaton Corporation
Eaton Center
1111 Superior Avenue
Cleveland, Ohio 44114-2584
(216) 523-5000

You should rely only on the information incorporated by reference or provided in this prospectus supplement and the accompanying prospectus. We have not authorized anyone else to provide you with different information. This prospectus supplement is an offer to sell or buy only the securities described in this document, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement is current only as of the date of this prospectus supplement.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements included or incorporated by reference in the accompanying prospectus or this prospectus supplement constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as expects , intends , plans , projects , believes , estimates , anticipates and variations of t similar expressions are used to identify these forward-looking statements. These forward-looking statements refer to, among other things, our plans, strategies and prospects, both business and financial. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we can give no assurance that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Important factors that could cause actual results to differ materially from the forward-looking statements we make in those documents are set forth in those documents, and include those described under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified by those cautionary statements. We will not update these forward-looking statements even though our situation will change in the future.

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SUMMARY

This summary may not contain all of the information that may be important to you. You should read the entire prospectus supplement and the accompanying prospectus, as well as the documents incorporated by reference into this prospectus supplement and the accompanying prospectus, before making an investment decision.

The Company

We are a global leader in the design, manufacture, marketing and servicing of electrical systems and components for power quality, distribution and control; hydraulics components, systems and services for industrial and mobile equipment; hydraulics, fuel and pneumatic systems for commercial and military aircraft; intelligent truck drivetrain systems for safety and fuel economy; and automotive engine air management systems, powertrain solutions and specialty controls for performance, fuel economy and safety. Headquartered in Cleveland, Ohio, we have 79,000 employees and sell products in more than 150 countries.

Our operations are categorized into the following five business segments: Electrical, Hydraulics, Aerospace, Truck and Automotive. Prior to January 1, 2008, we reported our businesses in four segments, with the current Hydraulics and Aerospace segments being part of one segment called Fluid Power.

Electrical

The Electrical segment is a leader in power distribution and power protection equipment including uninterruptible power supply (or UPS) systems, switches, power distribution units, circuit breakers, switch boards, motor controls, meters and relays. The principal markets for the Electrical segment are industrial, non-residential and residential construction, commercial, government, institutional, and telecommunications customers. These customers are generally concentrated in North America, Europe and Asia/Pacific; however, sales are made globally. Sales in the Electrical segment are made directly and indirectly through distributors and manufacturers representatives to these customers.

Hydraulics

The Hydraulics segment manufactures hydraulic components and systems for industrial and mobile applications, including pumps, motors, hydraulic power units, hose and fittings and power and load management systems; a wide range of controls and sensing products, including valves, cylinders and electronic controls; a full range of fluid conveyance products, including hose, thermoplastic tubing, fittings, couplings and sealing; filtration systems solutions, including filter bags, canisters and vessels; heavy-duty drum and disc brakes; and golf grips. The principal markets for the Hydraulics segment are original equipment manufacturers and after-market customers of off-highway and industrial equipment; equipment and systems in oil and gas, fine chemicals, mining, metal forming and food and beverage applications. These manufacturers are located globally, and these products are sold and serviced through a variety of channels.

Aerospace

The Aerospace segment manufactures hydraulic power generation systems for aerospace applications, including, pumps, motors, hydraulic power units, hose and fittings, electro-hydraulic pumps and power and load management systems; controls and sensing products, including valves, cylinders, electronic controls, electromechanical actuators, sensors, displays and panels, aircraft flap and slat systems and nose wheel steering systems; fluid conveyance products, including hose, thermoplastic tubing, fittings, adapters, couplings, sealing and ducting; and fuel systems, including fuel pumps, sensors, valves, adapters and regulators. The principal markets for the Aerospace segment are manufacturers of commercial and military aircraft and related after-market customers. These manufacturers are located globally and these products are sold and serviced through a variety of channels.

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Truck

The Truck segment is a leader in the design, manufacture and marketing of drivetrain systems and components for medium-and heavy-duty commercial vehicles, primarily in the Americas. The segment designs and manufactures transmissions, clutches, collision warning systems, mobile diagnostics, fleet resource management solutions, and hybrid electric powertrain systems. The principal markets for the Truck segment are original equipment manufacturers and after-market customers of heavy-, medium- and light-duty trucks and passenger cars. These manufacturers and other customers are located globally, and most sales of these products are made directly to these manufacturers.

Automotive

The Automotive segment designs, manufactures and markets superchargers, engine valves and valve actuation systems, cylinder heads, locking and limited slip differentials, transmission controls, engine controls, fuel vapor components, compressor control clutches for mobile refrigeration, fluid connectors and hoses for air conditioning and power steering, decorative spoilers, underhood plastic components, fluid conveyance products including, hose, thermoplastic tubing, fittings, adapters, couplings and sealing products to the global automotive industry. The principal markets for the Automotive segment are original equipment manufacturers and aftermarket customers of light-duty trucks and passenger cars. These manufacturers are located globally, and most sales of these products are made directly to these manufacturers.

Our principal executive office is located at Eaton Center, 1111 Superior Avenue, Cleveland, Ohio 44114-2584, and our telephone number is (216) 523-5000.

Recent Developments

On April 28, 2008, we received approximately $1.43 billion in net proceeds from the issuance of 17,500,000 common shares sold in a public offering. On May 5, 2008, we issued an additional 1,178,000 common shares pursuant to the partial exercise of the underwriters over-allotment option in the common share offering, resulting in additional net proceeds to us of approximately $95.9 million. We used these proceeds to repay borrowings under our revolving credit facility, which we entered into on January 25, 2008, and to repay some of the commercial paper backstopped by the facility. The revolving credit facility, in the amount of $3.0 billion, was entered into for the purpose of financing the acquisitions of The Moeller Group on April 4, 2008 and Phoenixtec Power Company Ltd. on February 26, 2008.

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The Offering

Issuer	Eaton Corporation
Notes offered	$300,000,000 aggregate principal amount of 4.900% Notes due 2013. $450,000,000 aggregate principal amount of 5.600% Notes due 2018.
Maturity	The Notes due 2013 will mature on May 15, 2013. The Notes due 2018 will mature on May 15, 2018.
Interest Rate	The Notes due 2013 will bear interest at 4.900 % per annum, payable semi-annually. The Notes due 2018 will bear interest at 5.600 % per annum, payable semi-annually.
Interest Payment Dates	May 15 and November 15 of each year, commencing on November 15, 2008.
Optional Redemption	We may redeem the Notes, in whole or in part, at any time, at the applicable make-whole premium redemption price described under Description of Notes Optional Redemption in this prospectus supplement.
Ranking	The Notes will be our senior unsecured obligations and will rank equally with our other senior unsecured indebtedness from time to time outstanding. The Notes will be effectively subordinated to any existing or future debt or other liabilities of any of our subsidiaries.
Change of Control	If a Change of Control Triggering Event as described herein occurs, unless we have exercised our option to redeem the Notes by notifying the holders to that effect, we will be required to offer to repurchase the Notes at the price described in this prospectus supplement.
Authorized Denominations	Minimum denominations of $2,000 and integral multiples of $1,000 in excess of $2,000.
Use of proceeds	We expect the net proceeds from the sale of the Notes offered hereby to be approximately $743.5 million, after deducting underwriting discounts and commission and offering expenses. We will use these proceeds to repay commercial paper backstopped by our revolving credit facility, which we entered into on January 25, 2008. The revolving credit facility, in the amount of $3.0 billion, was entered into for the purpose of either funding direct loans or backstopping commercial paper borrowings. As of May 14, 2008, we had no borrowings outstanding under our revolving credit facility and commercial paper backstopped totaled $974 million at an average interest rate of 2.46%, with an average maturity period of 12 days. The proceeds of the revolving credit facility were used to finance the acquisitions of The Moeller Group on April 4, 2008 and Phoenixtec Power Company Ltd. on February 26, 2008. See Use of Proceeds.
Trustee, Registrar and Paying Agent	The Bank of New York

Governing Law	New York

USE OF PROCEEDS

We expect the net proceeds from the sale of the Notes offered hereby to be approximately $743.5 million, after deducting underwriting discounts and commission and offering expenses. We will use these proceeds to repay commercial paper backstopped by our revolving credit facility, which we entered into on January 25, 2008. The revolving credit facility, in the amount of $3.0 billion, was entered into for the purpose of either funding direct loans or backstopping commercial paper borrowings. As of May 14, 2008, we had no borrowings outstanding under our revolving credit facility and commercial paper backstopped totaled $974 million at an average interest rate of 2.46%, with an average maturity period of 12 days. The proceeds of the revolving credit facility were used to finance the acquisitions of The Moeller Group on April 4, 2008 and Phoenixtec Power Company Ltd. on February 26, 2008.

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CAPITALIZATION

The following table sets forth the capitalization of Eaton and our consolidated subsidiaries at March 31, 2008. The As Adjusted capitalization set forth below gives effect to the issuance of the Notes due 2013 and the Notes due 2018 offered hereby, after deducting underwriting discounts and commissions and offering expenses.

	As of March 31, 2008 Unaudited	
	Historical	As Adjusted
	Millions	
Short-term debt, primarily commercial paper	$ 1,290	$ 1,290
Current portion of long-term debt	171	171
Total short-term debt and current portion of long-term debt	$ 1,461	$ 1,461
Long-term debt		
7.40% notes due 2009	$ 15	$ 15
Floating rate senior notes due 2009 (3.17625% at March 31, 2008 LIBOR + .08%)	250	250
Floating rate senior note due 2010 (3.25% at March 31, 2008 LIBOR + .26%)	281	281
5.75% notes due 2012	300	300
7.58% notes due 2012	12	12
5.80% notes due 2013	7	7
12.5% debentures due 2014	11	11
4.65% notes due 2015	100	100
5.3% notes due 2017	250	250
7.09% notes due 2018	25	25
6.89% notes due 2018	6	6
7.07% notes due 2018	2	2
6.875% notes due 2018	3	3
8-7/8% debentures due 2019	38	38
8.10% debentures due 2022	100	100
7.625% debentures due 2024	66	66
6-1/2% debentures due 2025	145	145
7.875% debentures due 2026	72	72
7.65% debentures due 2029	200	200
5.45% debentures due 2034	150	150
5.25% notes due 2035	72	72
5.8% notes due 2037	240	240
Floating rate borrowing under $3.0 billion revolving credit agreement (3.28% at March 31, 2008 LIBOR + .21)%	100	100
Floating rate borrowing under $3.0 billion revolving credit agreement (3.28813% at March 31, 2008 LIBOR + .21)%	50	50
Floating rate borrowing under $3.0 billion revolving credit agreement (3.26813% at March 31, 2008 LIBOR + .21)%	100	100

4.900% Notes due 2013 offered hereby		300
5.600% Notes due 2018 offered hereby		450
Other	109	109
Total long-term debt	2,704	3,454
Shareholders equity Common shares, par value $0.50 per share, 300.0 million common shares authorized and 147.1 million common shares issued and outstanding	74	74
Capital in excess of par value	2,330	2,330
Retained earnings	3,430	3,430
Accumulated other comprehensive loss	(311)	(311)
Deferred compensation plans	(23)	(23)
Total shareholders equity	5,500	5,500
Total capitalization (long-term debt and shareholders equity)	$ 8,204	$ 8,954

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RATIO OF EARNINGS TO FIXED CHARGES

The following table shows our ratio of earnings to fixed charges for the three months ended March 31, 2008 and for each of the five years in the period ended December 31, 2007.

	For the Three Months Ended March 31,	For the Years Ended December 31,				
	2008	2007	2006	2005	2004	2003
Ratio of Earnings to Fixed Charges	5.70	5.16	6.02	7.04	6.78	4.41

For the purpose of computing the ratio of earnings to fixed charges, earnings consist of consolidated pretax income from continuing operations before adjustment for minority interests in consolidated subsidiaries and income (loss) of equity investees, plus (1) amortization of capitalized interest, (2) distributed income of equity investees and (3) fixed charges described below, excluding interest capitalized. Fixed charges consist of (1) interest expensed, (2) capitalized interest, (3) amortization of debt issue costs and (4) that portion of rent expense estimated to represent interest. Because we have not had any preferred shares outstanding during the last five years and have, therefore, not paid any dividends on preferred shares, our ratio of earnings to combined fixed charges and preferred share dividends has been the same as the ratio of earnings to fixed charges for each of the above periods.

DESCRIPTION OF NOTES

General

The following description of the particular terms of the Notes offered hereby supplements the description of the general terms and provisions of debt securities under the heading Description of Debt Securities in the accompanying prospectus. Capitalized terms used in this section of this prospectus supplement that are otherwise not defined have the meanings given to them in the accompanying prospectus.

The Notes will be senior unsecured debt issued under the Indenture dated as of April 1, 1994, as supplemented from time to time (the Senior Indenture), between us and The Bank of New York, as successor to JPMorgan Chase Bank, N.A. (formerly known as Chemical Bank), as Senior Trustee. The Notes will rank equally with all our other senior unsecured indebtedness from time to time outstanding. Each of the Notes due 2013 and the Notes due 2018 will constitute a separate series of securities under the Senior Indenture.

We will issue the Notes due 2013 in the aggregate principal amount of $300.0 million. The Notes due 2013 will mature on May 15, 2013. We will issue the Notes due 2018 in the aggregate principal amount of $450.0 million. The Notes due 2018 will mature on May 15, 2018. We will issue the Notes only in book-entry form, in denominations of $2,000 and integral multiples of $1,000 in excess of $2,000. The Notes will not be subject to any sinking fund and will not be convertible into or exchangeable for any of our equity interests.

We may, without the consent of the holders of the Notes, issue additional debt securities having the same ranking and the same interest rate, maturity and other terms as the Notes of a particular series. Any such additional debt securities and the Notes of such series will constitute a single series under the Senior Indenture. None of these additional Notes may be issued if an Event of Default has occurred and is continuing with respect to the Notes of such series.

Principal and Interest

Notes due 2013

The Notes due 2013 will mature on May 15, 2013, bear interest at the annual rate shown on the cover of this prospectus supplement and accrue interest from May 20, 2008 or from the most recent date to which interest has been paid or provided for. Interest will be payable semi-annually, on May 15 and November 15, beginning on November 15, 2008, to each person in whose name the Notes due 2013 are registered at the close of business on the May 1 and November 1 (whether or not that date is a business day as that term is defined in the Senior Indenture), as the case may be, immediately preceding the interest payment date. We will compute interest on the Notes due 2013 on the basis of a 360-day year consisting of twelve 30-day months. If any interest payment date or maturity or redemption date falls on a day that is not a business day, then the payment will be made on the next business day without additional interest and with the same effect as if it were made on the originally scheduled date.

Notes due 2018

The Notes due 2018 will mature on May 15, 2018, bear interest at the annual rate shown on the cover of this prospectus supplement and accrue interest from May 20, 2008 or from the most recent date to which interest has been paid or provided for. Interest will be payable semi-annually, on May 15 and November 15, beginning on November 15, 2008, to each person in whose name the Notes due 2018 are registered at the close of business on the May 1 and November 1 (whether or not that date is a business day as that term is defined in the Senior Indenture), as the case may be, immediately preceding the interest payment date. We will compute interest on the Notes due 2018 on the basis of a 360-day year consisting of twelve 30-day months. If any interest payment date or maturity or redemption date falls on a day that is not a business day, then the payment will be made on the next business day without additional interest and with the same effect as if it were made on the originally scheduled date.

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Optional Redemption

All or a portion of the Notes due 2013 or the Notes due 2018, as the case may be, may be redeemed at our option at any time or from time to time. The redemption price for the Notes due 2013 or the Notes due 2018, as applicable, to be redeemed on any redemption date will be equal to the greater of the following amounts:

- 100% of the principal amount of the Notes being redeemed on the redemption date; and

- the sum of the present values of the remaining scheduled payments of principal and interest on the applicable Notes being redeemed on that redemption date (not including any portion of any payments of interest accrued to the redemption date), discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below), plus 30 basis points, as determined by the Quotation Agent (as defined below),

plus, in each case, accrued and unpaid interest on the applicable Notes to the redemption date. Notwithstanding the foregoing, installments of interest on the applicable Notes that are due and payable on interest payment dates falling on or prior to a redemption date will be payable on the interest payment date to the registered holders as of the close of business on the relevant record date according to the applicable Notes and the Senior Indenture.

We will mail notice of any redemption to each registered holder of the applicable Notes at least 30 days but not more than 60 days before the redemption date. Once notice of redemption is mailed, the applicable Notes will become due and payable on the redemption date and at the applicable redemption price, plus accrued and unpaid interest to the redemption date.

Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date. The Treasury Rate will be determined on the third business day prior to the redemption date.

Comparable Treasury Issue means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the applicable Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the applicable Notes.

Comparable Treasury Price means, with respect to any redemption date, (A) the average of the applicable Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest of those Reference Treasury Dealer Quotations, or (B) if the Quotation Agent obtains fewer than three such Reference Treasury Dealer Quotations, the average of all those Quotations, or (C) if only one Reference Treasury Dealer Quotation is received, that Quotation.

Quotation Agent means a Reference Treasury Dealer selected by us for the purpose of performing the functions of the Quotation Agent with respect to the applicable Notes.

Reference Treasury Dealer means (A) (i) Citigroup Global Markets Inc., (ii) J.P. Morgan Securities Inc. or (iii) Morgan Stanley & Co. Incorporated (or their respective affiliates which are Primary Treasury Dealers) and their respective successors; provided, however, that if any of them ceases to be a primary U.S. Government securities dealer in the United States (a Primary Treasury Dealer), we will substitute for them another Primary Treasury Dealer; and (B) any other Primary Treasury Dealer(s) we select.

Reference Treasury Dealer Quotation means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third business day preceding the redemption date.

On and after the redemption date, interest will cease to accrue on the applicable Notes or any portion of the applicable Notes called for redemption (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with a paying agent (or the trustee) money sufficient to pay the redemption price of and accrued interest on the applicable Notes to be redeemed on that date. If less than all of the applicable Notes are to be redeemed, the applicable Notes to be redeemed shall be selected by lot by DTC, in the case of applicable Notes represented by a global security, or by the trustee by a method the trustee deems to be fair and appropriate, in the case of applicable Notes that are not represented by a global security.

Change of Control Offer

If a Change of Control Triggering Event occurs with respect to the Notes due 2013 or the Notes due 2018, unless we have exercised our option to redeem those Notes by notifying the noteholders to that effect as described above, we will be required to make an offer (a Change of Control Offer) to each holder of the series of Notes as to which the Change of Control Triggering Event has occurred to repurchase all or any part (equal to $2,000 or an integral multiple of $1,000 in excess of $2,000) of that holder s applicable Notes on the terms set forth in those Notes. In a Change of Control Offer, we will be required to offer payment in cash equal to 101% of the aggregate principal amount of the applicable Notes repurchased, plus accrued and unpaid interest, if any, on the applicable Notes repurchased to the date of repurchase (a Change of Control Payment). Within 30 days following any Change of Control Triggering Event or, at our option, prior to any Change of Control, but after public announcement of the transaction that constitutes or may constitute the Change of Control, a notice will be mailed to holders of the applicable Notes, describing the transaction that constitutes or may constitute the Change of Control Triggering Event and offering to repurchase the applicable Notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date that notice is mailed (a Change of Control Payment Date). The notice will, if mailed prior to the date of consummation of the Change of Control, state that the Change of Control Offer is conditioned on the Change of Control Triggering Event occurring on or prior to the applicable Change of Control Payment Date.

On each Change of Control Payment Date, we will, to the extent lawful:

accept for payment all applicable Notes or portions of applicable Notes properly tendered pursuant to the applicable Change of Control Offer;

deposit with the paying agent an amount equal to the Change of Control Payment in respect of all applicable Notes or portions of applicable Notes properly tendered; and

deliver or cause to be delivered to the trustee the applicable Notes properly accepted together with an officers certificate stating the aggregate principal amount of applicable Notes or portions of applicable Notes being repurchased and that all conditions precedent provided for in the Senior Indenture to the Change of Control Offer and to the repurchase by the Company of the applicable Notes pursuant to the Change of Control Offer have been met.

We will not be required to make a Change of Control Offer upon the occurrence of a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and the third party repurchases all applicable Notes properly tendered and not withdrawn under its offer. In addition, we will not repurchase any applicable Notes if there has occurred and is continuing on the Change of Control Payment Date an event of default under the Senior Indenture, other than a default in the payment of the Change of Control Payment upon a Change of Control Triggering Event.

We will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the applicable Notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any such securities laws or regulations conflict with the Change of Control Offer provisions of the applicable Notes, we will comply with those securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control Offer provisions of the applicable Notes by virtue of any such conflict.

For purposes of the Change of Control Offer provisions of the applicable Notes, the following terms will be applicable:

Change of Control means the occurrence of any of the following: (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or more series of related transactions, of all or substantially all of our assets and the assets of our subsidiaries, taken as a whole, to any person, other than our company or one of our subsidiaries; (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of our outstanding Voting Stock or other Voting Stock into which our Voting Stock is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares; (3) we consolidate with, or merge with or into, any person, or any person consolidates with, or merges with or into, us, in any such event pursuant to a transaction in which any of our outstanding Voting Stock or the Voting Stock of such other person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of our Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving person or any direct or indirect parent company of the surviving person immediately after giving effect to such transaction; (4) the first day on which a majority of the members of our Board of Directors are not Continuing Directors; or (5) the adoption of a plan relating to our liquidation or dissolution. Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control under clause (2) above if (i) we become a direct or indirect wholly-owned subsidiary of a holding company and (ii)(A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of our Voting Stock immediately prior to that transaction or (B) immediately following that transaction no person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company. The term person, as used in this definition, has the meaning given thereto in Section 13(d)(3) of the Exchange Act.

Change of Control Triggering Event means the occurrence of both a Change of Control and a Rating Event.

Continuing Directors means, as of any date of determination, any member of our Board of Directors who (1) was a member of our Board of Directors on the date the applicable Notes were issued or (2) was nominated for election, elected or appointed to our Board of Directors with the approval of a majority of the Continuing Directors who were members of our Board of Directors at the time of the nomination, election or appointment (either by a specific vote or by approval of our proxy statement in which that member was named as a nominee for election as a director, without objection to the nomination).

Fitch means Fitch Inc., and its successors.

Investment Grade Rating means a rating equal to or higher than Baa3 (or the equivalent) by Moody s, BBB- (or the equivalent) by S&P and BBB- (or the equivalent) by Fitch, and the equivalent investment grade credit rating from any replacement rating agency or rating agencies selected by us.

Moody s means Moody s Investors Service, Inc., and its successors.

Rating Agencies means (1) each of Moody s, S&P and Fitch; and (2) if any of Moody s, S&P or Fitch ceases to rate the applicable Notes or fails to make a rating of the applicable Notes publicly available for reasons beyond our control, a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by us (as certified by a resolution of our Board of Directors) as a replacement agency for Moody s, S&P or Fitch, or all of them, as the case may be.

Rating Event means the rating on the applicable Notes is lowered by at least two of the three Rating Agencies and such Notes are rated below an Investment Grade Rating by at least two of the three Rating

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Agencies, in any case on any day during the period (which period will be extended so long as the rating of such Notes is under publicly announced consideration for a possible downgrade by any of the Rating Agencies) commencing 60 days prior to the first public notice of the occurrence of a Change of Control or our intention to effect a Change of Control and ending 60 days following consummation of such Change of Control.

S&P means Standard & Poor s Rating Services, a division of The McGraw-Hill Companies, Inc., and its successors.

Voting Stock means, with respect to any specified person (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date, the capital stock of that person that is at the time entitled to vote generally in the election of the board of directors of that person.

Defeasance and Covenant Defeasance

In some circumstances, we may elect to discharge our obligations on the Notes through defeasance or covenant defeasance. See Description of Debt Securities Defeasance and Covenant Defeasance in the accompanying prospectus for more information about how we may do this.

Book-Entry System

We will issue the Notes in the form of one or more fully registered global securities, as described in Description of Debt Securities Book-Entry Debt Securities in the accompanying prospectus. We will deposit these global securities with, or on behalf of, The Depository Trust Company, New York, New York (DTC), and register these securities in the name of DTC s nominee.

Investors may elect to hold interests in the Notes in global form through either DTC in the United States or Clearstream Banking, société anonyme (Clearstream, Luxembourg) or Euroclear Bank S.A./N.V, as operator of the Euroclear System (the Euroclear System), in Europe if they are participants in those systems, or indirectly through organizations which are participants in those systems. Clearstream, Luxembourg and the Euroclear System will hold interests on behalf of their participants through customers securities accounts in Clearstream, Luxembourg s and the Euroclear System s names on the books of their respective depositaries, which in turn will hold those interests in customers securities accounts in the depositaries names on the books of DTC. Citibank, N.A. will act as depositary for Clearstream, Luxembourg and JP Morgan Chase Bank will act as depositary for the Euroclear System (in those capacities, the U.S. Depositaries).

DTC advises that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the DTC Participants) deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC s system is also available to others, including securities brokers and dealers, banks and trust companies that clear transactions through or maintain a direct or indirect custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

Clearstream, Luxembourg advises that it is organized under the laws of Luxembourg as a professional depositary. Clearstream, Luxembourg holds securities for its participating organizations (Clearstream Participants) and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to Clearstream Participants, among

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other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in several countries. As a professional depositary, Clearstream, Luxembourg is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Distributions with respect to interests in the Notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by the U.S. Depositary for Clearstream, Luxembourg.

The Euroclear System advises that it was created in 1968 to hold securities for participants of the Euroclear System (Euroclear Participants) and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. The Euroclear System is operated by Euroclear Bank S.A./N.V (the Euroclear Operator). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear System cash accounts are accounts with the Euroclear Operator. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the Terms and Conditions). The Terms and Conditions govern transfers of securities and cash within the Euroclear System, withdrawals of securities and cash from the Euroclear System, and receipts of payments with respect to securities in the Euroclear System. All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no records of or relationship with persons holding through Euroclear Participants.

Distributions with respect to the Notes held beneficially through the Euroclear System will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. Depositary for the Euroclear System.

We will issue the Notes in definitive certificated form if DTC notifies us that it is unwilling or unable to continue as depositary or DTC ceases to be a clearing agency registered under the Exchange Act and we do not appoint a successor depositary within 90 days. In addition, beneficial interests in a global security certificate may be exchanged for definitive Note certificates upon request by or on behalf of DTC in accordance with customary procedures following the request of a beneficial owner seeking to exercise or enforce its rights under those Notes. If we determine at any time that the Notes shall no longer be represented by global security certificates, we will inform DTC of our determination, and DTC will, in turn, notify participants of their right to withdraw their beneficial interests from the global security certificates. If those participants elect to withdraw their beneficial interests, we will issue certificates in definitive form in exchange for the beneficial interests in the global security certificates. Any global security certificate, or portion thereof, that is exchangeable pursuant to this paragraph will be exchangeable for Note certificates, as the case may be, registered in the names directed by DTC. We expect that these instructions will be based upon directions received by DTC from its participants with respect to ownership of beneficial interests in the global security certificates.

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As long as DTC or its nominee is the registered owner of the global security certificates, DTC or its nominee, as the case may be, will be considered the sole owner and holder of the global security certificates and all Notes represented by these certificates for all purposes under the Notes and the Senior Indenture governing the Notes. Except in the limited circumstances referred to above, owners of beneficial interests in global security certificates:

- will not be entitled to have the Notes represented by these global security certificates registered in their names, and

- will not be considered to be owners or holders of the global security certificates or any Notes represented by these certificates for any purpose under the Notes or the junior subordinated indenture governing the Notes.

All payments on the Notes represented by the global security certificates and all transfers and deliveries of related Notes will be made to the depositary or its nominee, as the case may be, as the holder of the securities.

Ownership of beneficial interests in the global security certificates will be limited to participants or persons that may hold beneficial interests through institutions that have accounts with DTC or its nominee. Ownership of beneficial interests in global security certificates will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by DTC or its nominee, with respect to participants interests, or any participant, with respect to interests of persons held by the participant on their behalf. Payments, transfers, deliveries, exchanges and other matters relating to beneficial interests in global security certificates may be subject to various policies and procedures adopted by DTC from time to time. Neither we nor the trustee will have any responsibility or liability for any aspect of DTC s or any participant s records relating to, or for payments made on account of, beneficial interests in global security certificates, or for maintaining, supervising or reviewing any of DTC s records or any participant s records relating to these beneficial ownership interests.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the global security certificates among participants, DTC is under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. We will not have any responsibility for the performance by DTC or its direct participants or indirect participants under the rules and procedures governing DTC.

The information in this section concerning DTC, its book-entry system, Clearstream, Luxembourg and the Euroclear System has been obtained from sources that we believe to be reliable, but we have not attempted to verify the accuracy of this information.

Global Clearance and Settlement Procedures

Initial settlement for the Notes will be made in immediately available funds. Secondary market trading between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled in immediately available funds using DTC s Same-Day Funds Settlement System. Secondary market trading among Clearstream Participants and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream, Luxembourg and the Euroclear System, as applicable.

Cross-market transfers between persons holding directly or indirectly through DTC on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. Depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable

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to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to their respective U.S. Depositaries.

Because of time-zone differences, credits of Notes received in Clearstream, Luxembourg or the Euroclear System as a result of a transaction with a DTC Participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. The credits or any transactions in the Notes settled during the processing will be reported to the relevant Euroclear Participant or Clearstream Participant on that business day. Cash received in Clearstream, Luxembourg or the Euroclear System as a result of sales of the Notes by or through a Clearstream Participant or a Euroclear Participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream, Luxembourg or the Euroclear System cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream, Luxembourg and the Euroclear System have agreed to the foregoing procedures in order to facilitate transfers of Notes among participants of DTC, Clearstream, Luxembourg and the Euroclear System, they are under no obligation to perform or continue to perform those procedures and those procedures may be discontinued or changed at any time.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS TO NON-U.S. HOLDERS

Prospective investors should consult their professional advisors on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of the Notes by a non-U.S. person who purchases the Notes in the initial offering. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), applicable Treasury Regulations promulgated thereunder, judicial authority and administrative interpretations, effective as of the date hereof, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations.

In this discussion, we do not purport to address all tax considerations that may be important to you in light of your particular circumstances, or to certain categories of investors that may be subject to special rules, such as financial institutions, insurance companies, regulated investment companies, tax-exempt organizations, dealers in securities or currencies, persons whose functional currency is not the U.S. dollar, partnerships or other pass-through entities for U.S. federal income tax purposes, U.S. expatriates or investors who hold the Notes as part of a hedge, conversion transaction, straddle or other risk reduction transaction. This discussion is limited to initial investors who purchase the Notes for cash at the original offering price and who hold the Notes as capital assets (generally for investment purposes). If a partnership holds the Notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. This summary does not consider any tax consequences arising under the laws of any foreign, state, local or other jurisdiction.

To ensure compliance with requirements imposed by the Internal Revenue Service, we inform you that any tax statement herein regarding any U.S. federal tax consequences is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties under U.S. tax laws. Any such statement herein was written in connection with the marketing or promotion of the transaction to which the statement relates. Investors considering the purchase of Notes should consult their own independent tax advisors regarding the application of the U.S. federal tax laws to their particular situations and the applicability and effect of state, local or foreign tax laws and tax treaties.

You are a Non-U.S. Holder for purposes of this discussion if you are a beneficial owner of a Note and you are for U.S. federal income tax purposes:

- an individual who is not a citizen or resident of the United States;
- a corporation or other entity treated as a corporation for U.S. federal income tax purposes organized or created under laws outside of the United States; or
- an estate or trust that is not subject to U.S. federal income taxation on its worldwide income.

Interest on the Notes

Payments of interest on the Notes to a Non-U.S. Holder generally will be exempt from U.S. federal income tax and withholding tax under the portfolio interest exemption if you properly certify as to your foreign status (as described below) and:

you do not own, actually or constructively, 10% or more of the combined voting power of all classes of our stock entitled to vote;

you are not a controlled foreign corporation that is related to us through stock ownership; and

you are not a bank that receives such interest in a transaction described in section 881(c)(3)(A) of the Code.

The portfolio interest exemption and several of the special rules for Non-U.S. Holders described below generally apply only if you appropriately certify as to your foreign status. You can generally meet this certification requirement by providing to us or our paying agent a properly executed IRS Form W-8BEN or appropriate substitute form certifying under penalty of perjury that you are not a U.S. person. If you hold the Notes through a securities clearing organization, financial institution or other agent acting on your behalf, you may be required to provide appropriate certifications to the agent. Your agent will then generally be required to provide appropriate certifications to us or our paying agent, either directly or through other intermediaries. Special rules apply to foreign partnerships, estates and trusts and other intermediaries, and in certain circumstances certifications as to foreign status of partners, trust owners or beneficiaries may have to be provided. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the IRS.

If you cannot satisfy the requirements described above for the portfolio interest exemption, payments of interest made to you on the Notes will be subject to the 30% U.S. federal withholding tax, unless you provide us either with (1) a properly executed IRS Form W-8BEN (or successor form) claiming an exemption from (or a reduction of) withholding under the benefit of a tax treaty or (2) a properly executed IRS Form W-8ECI (or successor form) stating that interest paid on the Note is not subject to withholding tax because the interest is effectively connected with your conduct of a trade or business in the United States and you meet the certification requirements described below. See Income or Gain Effectively Connected with a U.S. Trade or Business.

Disposition of Notes

You generally will not be subject to U.S. federal income tax (and generally no tax will be withheld) on any gain realized on the sale, redemption, exchange, retirement or other taxable disposition of a Note unless:

- the gain is effectively connected with your conduct of a U.S. trade or business (and in the case of an applicable tax treaty, attributable to your permanent establishment in the United States); or

- you are an individual who has been present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met.

Income or Gain Effectively Connected with a U.S. Trade or Business

If any interest on the Notes or gain from the sale, exchange or other taxable disposition of the Notes is effectively connected with a U.S. trade of business conducted by you (and in the case of an applicable treaty, attributable to your permanent establishment in the United States), then the income or gain will be subject to U.S. federal income tax at regular graduated income tax rates, but will not be subject to U.S. withholding tax if certain certification requirements are satisfied. You can generally meet these certification requirements by providing a properly executed IRS Form W-8ECI or appropriate substitute form to us, or our paying agent. If you are a corporation, the portion of your earnings and profits that is effectively connected with your U.S. trade of business (and, in the case of an applicable tax treaty, attributable to your permanent establishment in the United States) also may be subject to an additional branch profits tax at a 30% rate, although an applicable tax treaty may provide for a lower rate.

Information Reporting and Backup Withholding

Payments to Non-U.S. Holders of interest on a Note, and amounts withheld from such payments, if any, generally will be required to be reported to the IRS and to you. Backup withholding tax generally will not apply to payments of interest and principal on a Note to a Non-U.S. Holder if certification of foreign status such as an IRS Form W-8BEN described in Interest on the Notes is duly provided by the Non-U.S. Holder or the holder otherwise establishes an exemption, provided that we do not have actual knowledge or reason to know that the holder is a U.S. person.

Payment of the proceeds of a sale of a Note effected by the U.S. office of a U.S. or foreign broker will be subject to information reporting requirements and backup withholding unless you properly certify under penalties of perjury as to your foreign status and certain other conditions are met or you otherwise establish an exemption. Information reporting requirements and backup withholding generally will not apply to any

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payment of the proceeds of the sale of a Note effected outside the United States by a foreign office of a broker. However, unless such a broker has documentary evidence in its records that you are a Non-U.S. Holder and certain other conditions are met, or you otherwise establish an exemption, information reporting will apply to a payment of the proceeds of the sale of a Note effected outside the United States by certain brokers with substantial connections to the United States.

Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules may be credited against your U.S. federal income tax liability and any excess may be refundable if the proper information is provided to the IRS on a timely basis.

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UNDERWRITING

Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated are acting as joint book-running managers of the offering of the Notes and are acting as representatives of the underwriters named below.

Subject to the terms and conditions stated in the underwriting agreement, dated the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the principal amount of the applicable Notes set forth opposite the underwriter s name.

Underwriter	Principal Amount of Notes Due 2013	Principal Amount of Notes Due 2018
Citigroup Global Markets Inc.	$ 66,000,000	$ 99,000,000
J.P. Morgan Securities Inc.	66,000,000	99,000,000
Morgan Stanley & Co. Incorporated	66,000,000	99,000,000
Goldman, Sachs & Co.	25,500,000	38,250,000
UBS Securities LLC	25,500,000	38,250,000
Banc of America Securities LLC	15,000,000	22,500,000
KeyBanc Capital Markets Inc.	15,000,000	22,500,000
Barclays Capital Inc.	5,250,000	7,875,000
BNP Paribas Securities Corp.	5,250,000	7,875,000
Deutsche Bank Securities Inc.	5,250,000	7,875,000
Merrill Lynch, Pierce Fenner & Smith Incorporated	5,250,000	7,875,000
Total	$ 300,000,000	$ 450,000,000

The underwriting agreement provides that the obligations of the underwriters to purchase the Notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the applicable Notes if they purchase any of the applicable Notes.

The underwriters propose to offer some of the Notes directly to the public at the respective public offering prices set forth on the cover page of this prospectus supplement and some of the Notes to dealers at the public offering price less a concession not to exceed 0.350% of the principal amount of the Notes due 2013 and 0.400% of the principal amount of the Notes due 2018. The underwriters may allow, and dealers may reallow, a concession not to exceed 0.250% of the principal amount of the Notes due 2013 and 0.250% of the principal amount of the Notes due 2018.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the applicable Notes).

	Paid by Eaton
Per Note due 2013	0.600%
Per Note due 2018	0.650%

In connection with the offering, the representatives, on behalf of the underwriters, may purchase and sell Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of Notes in excess of the principal amount of Notes to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the representatives, in covering syndicate short positions or making stabilizing purchases, repurchases Notes originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our total expenses for this offering will be approximately $400,000.

The underwriters have performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of the Notes described in this prospectus supplement may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the Notes that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or

to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet net worth of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts or

in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of Notes described in this prospectus supplement who is located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an offer to the public in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the Notes have not authorized and do not authorize the making of any offer of the Notes through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the Notes as contemplated in this prospectus supplement. Accordingly, no purchaser of the Notes, other than the underwriters, is authorized to make any further offer of the Notes on behalf of the sellers or the underwriters.

Notice to Prospective Investors in the United Kingdom

This prospectus supplement and the accompanying prospectus are only being distributed to, and are only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (Qualified Investors) that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). This prospectus supplement, the accompanying prospectus and their contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

UK Stabilisation

In connection with this offering, the representatives (or any person or persons acting on their behalves), may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the representatives to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

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LEGAL OPINIONS

The validity of the Notes will be passed upon for our company by Mark M. McGuire, our Executive Vice President and General Counsel, and for the underwriters by Shearman & Sterling LLP, New York, New York. Mr. McGuire is paid a salary by our company and participates in various employee benefit plans offered to certain employees of our company generally.

EXPERTS

Ernst & Young LLP, an independent registered public accounting firm, has audited our consolidated financial statements and schedule included in our Annual Report on Form 10-K for the year ended December 31, 2007 and the effectiveness of our internal control over financial reporting as of December 31, 2007, as set forth in their reports, which are incorporated by reference in this prospectus supplement and elsewhere in the registration statement. Our consolidated financial statements and schedule and management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2007 are incorporated by reference in reliance on Ernst & Young LLP s reports, given on their authority as experts in accounting and auditing.

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Eaton Corporation
By this prospectus, we offer
an unspecified amount of the following:

Senior Debt Securities
Subordinated Debt Securities
Preferred Shares
Common Shares
Debt Warrants

Debt Warrants with
Debt Securities as Units
Debt Warrants with
Preferred Shares as Units

The Company from time to time may offer to sell senior or subordinated debt securities, preferred shares, common shares and warrants, as well as units that include any of these securities or securities of other entities. The debt securities, preferred shares and warrants may be convertible into or exercisable or exchangeable for common or preferred shares or other securities of the Company or debt or equity securities of one or more other entities. The common stock of the Company is listed on the NYSE and trades under the ticker symbol ETN .

The Company may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis.

This prospectus describes some of the general terms that may apply to these securities. The specific terms of any securities to be offered as well as the public offering prices of these securities will be described in a supplement to this prospectus. This prospectus may not be used to sell securities unless accompanied by a prospectus supplement. You should read this prospectus and the prospectus supplements carefully before you invest.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 14, 2005.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the SEC s public reference room at 450 Fifth Street, N.W., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on its public reference room. Our SEC filings are also available to the public from the SEC s web site at *http://www.sec.gov*. Our common shares are listed on the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange and information about us also is available there.

This prospectus is part of a registration statement that we have filed with the SEC. The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to other documents that we identify as part of this prospectus. Our subsequent filings of similar documents with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until our offering of securities has been completed.

Annual Report on Form 10-K for the year ended December 31, 2004

Quarterly Report on Form 10-Q for the quarter ended March 31, 2005

Quarterly Report on Form 10-Q for the quarter ended June 30, 2005

Quarterly Report on Form 10-Q for the quarter ended September 30, 2005

Current Report on Form 8-K filed February 25, 2005

Current Report on Form 8-K filed April 18, 2005

Current Report on Form 8-K filed April 29, 2005

Current Report on Form 8-K filed June 14, 2005

Current Report on Form 8-K filed July 18, 2005

Current Report on Form 8-K filed October 12, 2005

You may obtain a copy of these filings, at no cost, by writing to or telephoning us at the following address:

Eaton Corporation
Eaton Center
1111 Superior Avenue
Cleveland, Ohio 44114-2584
Attn: Shareholder Relations
(216) 523-5000

You should rely only on the information incorporated by reference or provided in this prospectus or any supplement. We have not authorized anyone else to provide you with different information. This prospectus is an offer to sell or buy only the securities described in this document, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of the date of this prospectus.

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THE COMPANY

We are a global diversified industrial manufacturer, incorporated in Ohio in 1916 as a successor to a New Jersey company that was incorporated in 1911. We are a global leader in electrical systems and components for power quality, distribution and control; fluid power systems and services for industrial, mobile and aircraft equipment; intelligent truck drivetrain systems for safety and fuel economy; and automotive engine air management systems, powertrain solutions and specialty controls for performance, fuel economy and safety. We have 58,000 employees and sell products to customers in more than 125 countries.

Our operations are categorized into these four business segments:

- Electrical
- Fluid Power
- Truck
- Automotive

Our principal executive office is located at Eaton Center, 1111 Superior Avenue, Cleveland, Ohio 44114-2584, and our telephone number is (216) 523-5000.

USE OF PROCEEDS

Except as may be described otherwise in a prospectus supplement, we will use the net proceeds from the sale of the securities under this prospectus for general corporate purposes, which may include additions to working capital, acquisitions, or the retirement of existing indebtedness via repayment, redemption or exchange.

RATIO OF EARNINGS TO FIXED CHARGES

The following table shows our ratio of earnings to fixed charges for the nine months ended September 30, 2005 and for each of the five years in the period ended December 31, 2004.

	Nine Months Ended September 30, 2005	Year Ended December 31,				
		2004	2003	2002	2001	2000
Ratio of Earnings to Fixed Charges	7.40	6.98	4.73	3.71	2.44	3.25

For the purpose of computing the ratio of earnings to fixed charges, earnings consist of consolidated pretax income before adjustment for minority interests in consolidated subsidiaries or income (loss) of equity investees, plus (1) amortization of capitalized interest, (2) distributed income of equity investees and (3) fixed charges described below, excluding capitalized interest. Fixed charges consist of (1) interest expensed, (2) interest capitalized, (3) amortization of debt issue costs and (4) that portion of rent expense estimated to represent interest. Because we have not had any Preferred Shares outstanding during the last five years and have, therefore, not paid any dividends on Preferred Shares, our ratio of earnings to combined fixed charges and Preferred Share dividends has been the same as the ratio of earnings to fixed charges for each of the above periods.

PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC utilizing a shelf registration process. Under this shelf process, we may sell any combination of debt securities, warrants to purchase debt securities, preferred shares and common shares with a par value of $.50 per share.

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PROSPECTUS SUPPLEMENT

This prospectus provides you with a general description of the debt securities, debt warrants, preferred shares and common shares we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to or change information contained in this prospectus. If so, the prospectus supplement should be read as superseding this prospectus. You should read both this prospectus and any prospectus supplement, together with additional information described under the heading Where You Can Find More Information.

The prospectus supplement to be attached to the front of this prospectus will describe:

- the terms of any debt securities that we offer, including the terms under the caption Provisions Applicable to Both the Senior and Subordinated Indentures General ;
- the terms of any debt warrants that we offer, including the exercise price, detachability, expiration date and other terms;
- the terms of any preferred shares that we offer, including the specific designations and dividend, redemption, liquidation, voting and other rights not described in this prospectus and any terms for conversion or exchange;
- the terms of any common shares that we offer; and
- any initial public offering price, the purchase price and net proceeds to our company and the other specific terms related to our offering of such securities.

For more details on the terms of the securities, you should read the exhibits filed with our registration statements.

DESCRIPTION OF DEBT SECURITIES

We may issue debt securities from time to time in one or more distinct series. This section summarizes the material terms of the debt securities that are common to all series. Most of the financial and other terms of any series of debt securities that we offer will be described in a prospectus supplement to be attached to the front of this prospectus. Since the terms of specific debt securities may differ from the general information we have provided below, you should rely on information in the prospectus supplement that is inconsistent with the information below. As used in this section, we, us, our and our company refer to Eaton Corporation and not to its subsidiaries, unless t context otherwise requires.

The debt securities are governed by a document called an Indenture. An Indenture is a contract between us and a financial institution acting as Trustee on your behalf. The Trustee has two main roles. First, the Trustee can enforce your rights against us if we default. There are some limitations on the extent to which the Trustee acts on your behalf. Second, the Trustee performs certain administrative duties for us.

Senior securities will be issued under an Indenture dated as of April 1, 1994, as supplemented from time to time (the Senior Indenture), which we entered into with Chemical Bank, as trustee (the Senior Trustee), and subordinated securities will be issued under a separate indenture (the Subordinated Indenture), which we will enter into with a trustee (the Subordinated Trustee) if we decide to issue any subordinated securities. JPMorgan Chase Bank, N.A. (formerly known as Chemical Bank) is acting as Senior Trustee. The term Trustee refers to either the Senior Trustee or the Subordinated Trustee, as appropriate. We will refer to the Senior Indenture and the Subordinated Indenture, as executed, together as the Indentures and each, as an Indenture. The Indentures are subject to and governed by the Trust Indenture Act of 1939.

The Indentures and associated documents contain the full legal text of the matters described in this section. We have filed the form of each Indenture as an exhibit to a registration statement that we have filed with the SEC. See Where You Can Find More Information on page 2 of this prospectus for information on how to obtain copies of the Indentures.

Because this section is a summary of the material terms of the Indentures, it does not describe every aspect of the debt securities. This summary is qualified in its entirety by the provisions of the Indentures, including definitions of certain terms used in the Indentures. For example, in this section, we use capitalized words to signify terms that are specifically defined in the Indentures. Some of the definitions are repeated in this prospectus, but for the rest you will need to read the Indentures. We also include references in parentheses to certain sections of the Indentures or the Trust Indenture Act. Whenever we refer to particular sections or defined terms of the Indentures, those sections or defined terms are incorporated by reference in this prospectus or in the prospectus supplement. Unless otherwise noted, the section numbers refer to the applicable section for both Indentures.

Provisions Applicable to Both the Senior and Subordinated Indentures

General

The debt securities will be our unsecured obligations. The senior securities will rank equally with all of our other unsecured and unsubordinated indebtedness. The subordinated securities will be subordinated in right of payment to the prior payment in full of our Senior Indebtedness as described below under Subordinated Indenture Provisions Subordination.

Under the Indentures, we may issue any debt securities offered under this prospectus and the attached prospectus supplement and any debt securities issuable upon the exercise of debt warrants or upon conversion or exchange of other offered securities, as well as other unsecured debt securities.

With respect to the offered debt securities and any underlying debt securities, you should read the prospectus supplement for the following and other terms, which will be established by authority of our Board of Directors before the issuance of the debt securities:

- the title of the debt securities and whether they will be senior securities or subordinated securities, including whether subordinated securities are convertible subordinated securities;
- the total principal amount of the debt securities and any limit on the total principal amount of debt securities of each series;
- the date or dates when the principal of the debt securities will be payable or how those dates will be determined;
- the interest rate or rates which the debt securities will bear, if any, or how such rate or rates will be determined, the date or dates from which interest will accrue, if any, or how such date or dates will be determined, the interest payment dates, the record dates for such payments, if any, or how such date or dates will be determined and the basis upon which interest will be calculated, if other than that of a 360-day year or twelve 30-day months;
- whether the amount of payments of principal of (or premium, if any), or interest on, the debt securities will be determined with reference to an index, formula or other method (which could be based on one or more Currencies, commodities, equity indices or other indices) and how such amounts will be determined;
- any optional redemption provisions;
- any sinking fund or other provisions that would obligate us to repurchase or redeem the debt securities;

if other than U.S. dollars, the Currency or Currencies of the debt securities;

if other than denominations of $1,000 in the case of Registered Securities, the denominations in which the offered debt securities will be issued;

if not the principal amount of the debt securities, the portion of the principal amount at which the debt securities will be issued and, if not the principal amount of the debt securities, the portion of the principal amount payable upon acceleration of the maturity of the debt securities or how that portion will be determined;

the form of the debt securities, if other than a registered global note, including whether the debt securities are to be issuable in permanent or temporary global form, as Registered Securities, Bearer Securities or both, any restrictions on the offer, sale or delivery of Bearer Securities, and the terms, if any, upon which you may exchange Bearer Securities for Registered Securities and vice versa (if permitted by applicable laws and regulations);

any modifications or additions to the provisions of Article Fourteen of the applicable Indenture described below under Defeasance and Covenant Defeasance if that Article is applicable to the debt securities;

any changes or additions to the Events of Default or our covenants with respect to the debt securities;

the place or places, if any, other than or in addition to The City of New York, of payment, transfer, conversion and/or exchange of the debt securities, and where notices or demands to or upon us in respect of the debt securities may be served;

whether we or a holder may elect payment of the principal or interest in one or more Currencies other than that in which such debt securities are stated to be payable, and the period or periods within which, and the terms and conditions upon which, that election may be made, and the time and manner of determining the exchange rate between the Currency or Currencies in which they are stated to be payable and the Currency or Currencies in which they are to be so payable;

if other than the Trustee, the identity of each Security Registrar and/or Paying Agent;

the designation of the Exchange Rate Agent, if applicable;

the Person to whom any interest on any Registered Security of the series will be payable, if other than the registered holder at the close of business on the record date, the manner in which, or the Person to whom, any interest on any Bearer Security of the series will be payable, if not upon presentation and surrender of the coupons relating to the Bearer Security as they mature, and the extent to which, or the manner in which, any interest payable on a temporary Global Security on an Interest Payment Date will be paid if not in the manner provided in the applicable Indenture;

whether and under what circumstances we will pay additional amounts as contemplated by Section 1005 of the applicable Indenture (Additional Amounts) in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the Additional Amounts (and the terms of any such option);

any provisions granting special rights to the holders of the debt securities upon the occurrence of specified events;

in the case of subordinated securities, any terms modifying the subordination provisions;

in the case of convertible subordinated securities, any terms by which they may be convertible into common shares;

- if we issue the debt securities in definitive form, the terms and conditions under which definitive securities will be issued;
- if we issue the debt securities upon the exercise of debt warrants, the time, manner and place for them to be authenticated and delivered;
- the manner for paying principal and interest and the manner for transferring the debt securities; and
- any other terms of the debt securities that are consistent with the requirements of the Trust Indenture Act.

For purposes of this prospectus, any reference to the payment of principal of (or premium, if any), or interest on, or interest on debt securities will include Additional Amounts if required by the terms of the debt securities.

The Indentures do not limit the amount of debt securities that we are authorized to issue from time to time. (Section 301) When a single Trustee is acting for all debt securities issued under an Indenture, those Securities are called the Indenture Securities. Each Indenture also provides that there may be more than one Trustee thereunder, each for a series of Indenture Securities. See Resignation of Trustee on page 16 of this prospectus. At a time when two or more Trustees are acting under either Indenture, each with respect to only certain series, the term Indenture Securities means the series of debt securities for which each respective Trustee is acting. If there is more than one Trustee under either Indenture, the powers and trust obligations of each Trustee will apply only to the Indenture Securities for which it is Trustee. If two or more Trustees are acting under either Indenture, then the Indenture Securities for which each Trustee is acting would be treated as if issued under separate indentures.

We may issue Indenture Securities with terms different from those of Indenture Securities already issued. Without the consent of the holders thereof, we may reopen a previous issue of a series of Indenture Securities and issue additional Indenture Securities of that series unless the reopening was restricted when that series was created.

If any series of debt securities are sold for, payable in or denominated in one or more foreign Currencies, we will specify applicable restrictions, elections, tax consequences, specific terms and other information in the applicable prospectus supplement.

There is no requirement that we issue debt securities in the future under the Indentures, and we may use other indentures or documentation containing different provisions in connection with future issues of such other debt securities.

We may issue the debt securities as original issue discount securities, which are debt securities, including any zero-coupon debt securities, that are issued and sold at a discount from their stated principal amount. Original issue discount securities provide that, upon acceleration of their maturity, an amount less than their principal amount will become due and payable. We will describe United States federal income tax consequences and other considerations applicable to original issue discount securities in any prospectus supplement relating to them.

Conversion and Exchange

If you may convert or exchange debt securities for other Securities, the prospectus supplement will explain the terms and conditions of such conversion or exchange, including:

- the conversion price or exchange ratio (or the calculation method);
- the conversion or exchange period (or how such period will be determined);
- if conversion or exchange will be mandatory, at your option or at our option;
- provisions for adjustment of the conversion price or the exchange ratio; and

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provisions affecting conversion or exchange in the event of the redemption of the debt securities.

The terms may also include provisions under which the number or amount of other Securities to be received by the holders of such debt securities upon conversion or exchange would be calculated according to the market price of such other Securities as of a time stated in the prospectus supplement.

Addit71

Impact of noncontrolling interests, net of tax	**116**	200	139
Total impact of restructuring/asset impairment charges, net of tax	**$23,160**	$25,537	$15,514

During 2012, the Company announced the closures of a paper mill in Germany and a paperboard-based protective packaging operation in the United States. In addition, the Company continued its manufacturing rationalization efforts in its blow-molding businesses, including the previously announced closure of a facility in Canada, and realigned its cost structure resulting in the elimination of approximately 165 positions.

During 2011, the Company announced the closures of a flexible packaging facility in Canada, a thermoformed plastic packaging facility in Canada, a tube and core facility in France, and both a fulfillment service center and a point-of-purchase display manufacturing facility in the United States. The Company also sold two small businesses, a plastics operation in Brazil and a tubes and cores operation in the United States, and realigned its fixed cost structure resulting in the elimination of approximately 160 positions.

During 2010, the Company recorded a pretax asset impairment charge of $12.6 million pursuant to notification from a large customer that the Company s contract to provide certain packaging would not be renewed in its entirety. The expected loss of business caused the Company to conclude that certain affected assets in its Consumer Packaging segment had been impaired. This loss was partially offset by net gains of $2.6 million, arising principally from the sale of land and buildings at previously closed sites within Europe.

The Company expects to recognize future additional costs totaling approximately $5.7 million in connection with previously announced restructuring actions. The Company believes that the majority of these charges will be incurred and paid by the end of 2013. As noted above, the Company regularly evaluates its cost structure, including its manufacturing capacity, and additional restructuring actions may be undertaken. Restructuring and asset impairment charges are subject to significant fluctuations from period to period due to the varying levels of restructuring activity and the inherent imprecision in the estimates used to recognize the impairment of assets and the wide variety of costs and taxes associated with severance and termination benefits in the countries in which the Company operates.

See Note 4 to the Consolidated Financial Statements for further information about restructuring activities and asset impairment charges.

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Reconciliations of GAAP to non-GAAP financial measures

The following tables reconcile the Company s non-GAAP financial measures to their most directly comparable GAAP financial measures for each of the years presented:

Dollars and shares in thousands, except per share data	*GAAP*	*For the year ended December 31, 2012* Restructuring/ Asset Impairment	Acquisition Related Cost	Tax Related Adjustments & Other[1]	*Base*
Income before interest and income taxes	$ 347,059	$ 32,858	$ 311	$ (4,800)	$ 375,428
Interest expense, net	59,985				59,985
Income before income taxes	$ 287,074	$ 32,858	$ 311	$ (4,800)	$ 315,443
Provision for income taxes	103,759	9,836	99	(12,302)	101,392
Income before equity in earnings of affiliates	$ 183,315	$ 23,022	$ 212	$ 7,502	$ 214,051
Equity in earnings of affiliates, net of tax	12,805	22			12,827
Net income	$ 196,120	$ 23,044	$ 212	$ 7,502	$ 226,878
Less: Net (income)/loss attributable to noncontrolling interests, net of tax	(110)	116			6
Net income attributable to Sonoco	$ 196,010	$ 23,160	$ 212	$ 7,502	$ 226,884
Per diluted common share	$ 1.91	$ 0.22	$ 0.00	$ 0.08	$ 2.21

(1) Consists primarily of insurance settlement gains totaling $4,800 pretax ($3,289 after tax) on a facility destroyed by fire in 2010 and a facility in Thailand damaged by a flood in 2011, and additional tax expense of $11,744 associated with a planned repatriation of cash.

Dollars and shares in thousands, except per share data	*GAAP*	*For the year ended December 31, 2011* Restructuring/ Asset Impairment	Acquisition Related Cost	Tax Related Adjustments & Other[2]	*Base*
Income before interest and income taxes	$ 322,480	$ 36,826	$ 12,290	$ (4,953)	$ 366,643
Interest expense, net	38,074				38,074
Income before income taxes	$ 284,406	$ 36,826	$ 12,290	$ (4,953)	$ 328,569
Provision for income taxes	78,423	11,506	3,667	13,146	106,742
Income before equity in earnings of affiliates	$ 205,983	$ 25,320	$ 8,623	$ (18,099)	$ 221,827
Equity in earnings of affiliates, net of tax	12,061	17			12,078
Net income	$ 218,044	$ 25,337	$ 8,623	$ (18,099)	$ 233,905
Less: Net (income)/loss attributable to noncontrolling interests, net of tax	(527)	200			(327)
Net income attributable to Sonoco	$ 217,517	$ 25,537	$ 8,623	$ (18,099)	$ 233,578
Per diluted common share	$ 2.13	$ 0.25	$ 0.09	$ (0.18)	$ 2.29

(2) Consists of insurance settlement gains on a facility destroyed by fire in 2010 totaling $4,953 pretax ($3,130 after tax) and reductions in tax expense from valuation allowance adjustments on deferred tax assets totaling $14,969.

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Dollars and shares in thousands, except per share data	GAAP	Restructuring/ Asset Impairment	Acquisition Related Cost	Tax Related Adjustments & Other[3]	Base
		For the year ended December 31, 2010			
Income before interest and income taxes	$ 338,177	$ 23,999	$ 1,909	$	$ 364,085
Interest expense, net	35,106				35,106
Loss from early extinguishment of debt	(48,617)			48,617	
Income before income taxes	$ 254,454	$ 23,999	$ 1,909	$ 48,617	$ 328,979
Provision for income taxes	64,485	9,295	558	27,089	101,427
Income before equity in earnings of affiliates	$ 189,969	$ 14,704	$ 1,351	$ 21,528	$ 227,552
Equity in earnings of affiliates, net of tax	11,505	671			12,176
Net income	$ 201,474	$ 15,375	$ 1,351	$ 21,528	$ 239,728
Less: Net (income)/loss attributable to noncontrolling interests, net of tax	(421)	138			(283)
Net income attributable to Sonoco	$ 201,053	$ 15,513	$ 1,351	$ 21,528	$ 239,445
Per diluted common share	$ 1.96	$ 0.15	$ 0.01	$ 0.22	$ 2.34

(3) Consists of loss from the early extinguishment of debt of $48,617 pretax ($31,657 after tax), tax benefits related to a regulatory clarification of a 2009 tax law change in Mexico of $5,474, and tax benefits related to the release of a valuation allowance on capital loss carryforwards of $4,655.

Results of operations 2012 versus 2011

For 2012, net income attributable to Sonoco was $196.0 million, compared with $217.5 million for 2011. Net income in 2012 was negatively impacted by after-tax restructuring and acquisition charges, net of gains from property sales and excess insurance recoveries, totaling $20.1 million, and net income tax charges of $10.8 million relating primarily to the repatriation of accumulated offshore cash. Earnings in 2011 were negatively impacted by an after-tax charge of $25.5 million from restructuring expenses and asset impairments and an after-tax charge of $8.6 million from acquisition-related costs and adjustments; these items were partially offset by an after-tax gain of $3.1 million from insurance proceeds in excess of recorded losses and a $15.0 million reduction in tax expense resulting from valuation allowance adjustments on deferred tax assets.

Base earnings in 2012 were $226.9 million ($2.21 per diluted share), compared with $233.6 million ($2.29 per diluted share) in 2011. This 2.9% year-over-year decline was the result of lower volume and a negative mix of business together with higher labor, pension and other costs; these items were partially offset by a positive price/cost relationship, productivity gains and the addition of Tegrant.

The consolidated effective tax rate was 36.1%, compared with 27.6% in 2011 and the effective tax rate on base earnings was 32.1%, compared with 32.5% in 2011. The increase in the GAAP rate was due primarily to 2012 taxes associated with repatriation of accumulated offshore cash and a 2011 benefit from deferred tax valuation adjustments. The decrease in the base tax rate was due to a higher proportion of the Company s 2012 income being generated in low tax rate jurisdictions.

Consolidated net sales for 2012 were $4.8 billion, a $287 million, or 6.4%, increase from 2011.

The components of the sales change were:

($ in millions)	
Volume/Mix	$ 6
Selling price	(45)
Acquisitions	406
Currency exchange rate/Other	(80)
Total sales increase	$ 287

Acquisition sales were almost entirely attributable to Tegrant, which was acquired in November 2011. Excluding acquisitions, reported sales would have been down 2.5% due to lower prices and the impact of exchange rates. Although volume was essentially flat overall, results were mixed across the Company s various businesses. Volume was up in Paper and Industrial Converted Products and in Display and Packaging, but was down in the Consumer Packaging segment. For the most part, price changes for the Company s products are driven by changes in the underlying product costs. Selling prices had the greatest impact on Paper and Industrial Converted Products, where they declined in response to lower recovered paper prices. However, selling prices were higher in the Consumer Packaging segment, primarily reflecting contract price resets to pass through higher paper and tinplate steel costs, and, to a lesser extent, higher film and resin costs. Total domestic sales were $3.2 billion, up 12% from 2011 levels. International sales were $1.6 billion, down 3% from 2011.

Costs and expenses/margins

Cost of sales was up $200.3 million from the prior year; however, excluding the impact of acquisitions, cost of sales would have been down, in line with the decrease in sales. Lower market pricing for recovered paper benefitted costs in our industrial businesses, while Consumer Packaging was negatively impacted by higher tinplate steel and other costs. Price/cost (the relationship of the change in sales prices to the change in costs of materials, energy and freight) was pos-

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itive relative to the prior year, but the benefit was offset by higher labor, pension and other costs. Gross profit margins improved year over year from 16.8% to 17.6% due largely to the addition of higher-margin Tegrant sales. Positive price/cost also contributed to the improvement.

In 2012, aggregate pension and postretirement expenses increased $16.0 million to $52.9 million, versus $36.9 million in 2011. Approximately 75% of these expenses are reflected in cost of sales, with the balance in selling, general and administrative expenses. The higher expense was primarily the result of higher actuarial loss amortization due to lower discount rates.

The acquisition of Tegrant was responsible for almost all of the $66.2 million increase in selling, general and administrative expenses. Excluding acquisitions, these costs would have been up slightly more than 1%, driven primarily by higher pension expense and general inflation, partially offset by the impact of foreign exchange rates. Base earnings before interest and income taxes were 7.3% of sales, virtually unchanged from last year.

Restructuring and restructuring related asset impairment charges totaled $32.9 million and $36.8 million in 2012 and 2011, respectively. Additional information regarding restructuring actions and impairments is provided in Note 4 to the Company s Consolidated Financial Statements.

Research and development costs, all of which were charged to expense, were $20.2 million and $18.8 million in 2012 and 2011, respectively. Management expects research and development spending in 2013 to be consistent with 2012 levels.

Net interest expense totaled $60.0 million for the year ended December 31, 2012, compared with $38.1 million in 2011. The increase was due primarily to higher average debt levels. In November 2011, the Company issued $500 million of senior unsecured notes consisting of $250 million of 4.375% Notes due 2021 and an additional $250 million of its 5.75% Notes due 2040. These funds were used for the Tegrant acquisition. Additionally, the Company entered into a $150 million three-year Term Loan Agreement, using a substantial portion of the proceeds to reduce outstanding commercial paper and the remainder for the Tegrant acquisition. This term loan was repaid in January 2013.

Reportable segments

Consolidated operating profits, also referred to as Income before interest and income taxes on the Consolidated Statements of Income, are comprised of the following:

($ in millions)	*2012*	*2011*	*% Change*
Segment operating profit			
Consumer Packaging	**$ 176.8**	$ 191.5	(7.7)%
Paper and Industrial Converted Products	**141.4**	138.2	2.3%
Display and Packaging	**18.5**	21.7	(14.8)%
Protective Solutions	**38.8**	15.2	154.8%
Restructuring/Asset impairment charges	**(32.9)**	(36.8)	(10.8)%
Acquisition-related costs	**(0.3)**	(12.3)	(97.5)%
Property insurance gains	**4.8**	5.0	(3.1)%
Consolidated operating profits	**$ 347.1**	$ 322.5	7.6%

Segment results viewed by Company management to evaluate segment performance do not include (depending upon the applicable period) restructuring charges, asset impairment charges, acquisition-related charges, specifically identified tax adjustments, debt tender charges, and certain other items, if any, the exclusion of which the Company believes improves comparability and analysis. Accordingly, the term segment operating profits is defined as the segment s portion of Income before interest and income taxes excluding those items. General corporate expenses, with the exception of restructuring charges, asset impairment charges, acquisition-related charges, debt tender charges, net interest expense and income taxes, have been allocated as operating costs to each of the Company s reportable segments.

See Note 16 to the Company s Consolidated Financial Statements for more information on reportable segments.

Consumer Packaging

($ in millions)	*2012*	*2011*	*% Change*
Trade sales	**$ 1,912.6**	$ 1,977.3	(3.3)%
Segment operating profits	**176.8**	191.5	(7.7)%
Depreciation, depletion and amortization	**75.6**	80.3	(5.9)%

Capital spending	**58.3**	60.8	(4.1)%

Sales decreased year over year primarily due to lower volume in rigid paper and plastic containers, a significant driver of which was lower demand for our customers products. In addition, demand for many of the segment s products declined as the effect of higher agricultural commodity costs on retail prices weighed down consumer spending on packaged food. Selling prices were slightly higher throughout the segment, but most notably in rigid paper containers, reflecting the pass through of higher costs relative to the prior year. The benefit to trade sales of higher selling prices was largely offset by the impact of foreign exchange rates. Domestic sales were approximately $1,465 million, down 0.5%, or $7 million, from 2011, while international sales were approximately $448 million, down 12.3%, or $57 million, from 2011.

The decrease in segment operating profits was driven by lower volume together with a negative mix of business. These declines were partially offset by productivity improvements and a positive price/cost relationship, net of higher labor, pension and other costs. As a result, operating profit margins declined to 9.3% from 9.7% in 2011. The Company s thermoformed plastics business saw a significant year-over-year decline in operating profits. This reduction was primarily due to lower demand for dual-ovenable trays in the frozen food industry and production inefficiencies resulting from the consolidation of operations and management changes. The Company expects thermoformed plastics operations to stabilize and its results to rebound in 2013.

Significant capital spending in the Consumer Packaging segment included spending on projects to increase rigid paper and rigid plastic container production capacity, productivity projects and upgrades to the production management and information system.

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Paper and Industrial Converted Products

($ in millions)	*2012*	*2011*	*% Change*
Trade sales	**$ 1,840.8**	$ 1,892.2	(2.7)%
Segment operating profits	**141.4**	138.2	2.3%
Depreciation, depletion and amortization	**83.3**	86.6	(3.7)%
Capital spending	**112.3**	86.8	29.3%

Lower selling prices, primarily due to lower average market costs for old corrugated containers (OCC), together with the impact of foreign exchange rates, accounted for most of the reported decrease in segment trade sales. Trade sales benefitted from increased volume in reels and paper/recycling, which was partially offset by lower tubes and cores demand in most regions of the world. Tubes and cores market share is estimated to have remained relatively flat year over year. Total domestic sales in the segment decreased $7 million, or 0.7%, to $1,019 million while international sales decreased $45 million, or 5.2%, to $822 million, with approximately $43 million of the decrease a result of unfavorable foreign exchange rates.

The increase in segment operating profit reflects the impact of higher overall volume, as improved productivity and an overall positive price/cost relationship were offset by higher labor, pension and other costs. Operating profits from converted products improved due to positive price/cost and increased reels volume despite lower volume in tubes and cores. Those improvements were partially offset in paper/recycling as the impact of negative price/cost, extended machine downtime for capital improvements and major repair/maintenance costs exceeded the benefit from higher volumes.

Significant capital spending in the segment included installation work on a new biomass boiler, the modification of several paper machines, primarily in North America and Europe, productivity projects and the replacement of the Company s Thailand facility which was damaged by a flood in 2011.

Display and Packaging

($ in millions)	*2012*	*2011*	*% Change*
Trade sales	**$ 477.6**	$ 471.5	1.3%
Segment operating profits	**18.5**	21.7	(14.8)%
Depreciation, depletion and amortization	**7.7**	7.4	3.5%
Capital spending	**3.3**	4.6	(27.9)%

The year-over-year increase in trade sales was driven by an improvement in international packaging fulfillment activities which was partially offset by the previously disclosed loss in 2011 of a contract packaging customer and the negative impact of foreign currency translation. Domestic sales decreased $31 million, or 16.1%, to $162 million, while international sales increased $37 million, or 13.7%, to $316 million. The decrease in domestic sales was due to the above mentioned lost customer and the relocation of a customer s operations to Mexico. The increase in international sales was a result of increased service center volume in Poland and Mexico, offset by the impact of exchange rates.

Operating profit for the segment decreased primarily due to the lost contract packaging customer and the impact of foreign currency translation, which were partially offset by improved productivity. In addition, prior year results benefited from higher-margin business associated with the customer relocation and transition activities for the above mentioned lost customer.

Capital spending in the segment included capacity expansion in South America and Poland, some manufacturing consolidation in the United States, as well as numerous productivity and customer development projects in the United States, Europe and South America.

Protective Solutions

($ in millions)	*2012*	*2011*	*% Change*
Trade sales	**$ 555.0**	$ 158.0	251.4%
Operating profits	**38.8**	15.2	154.8%
Depreciation, depletion and amortization	**33.8**	5.6	501.8%
Capital spending	**14.8**	3.9	279.9%

Sales in the Protective Solutions segment increased due to the acquisition of Tegrant as volume was off approximately 2% in the Company s legacy protective packaging business on weak demand, particularly in the appliance market. However, higher volume and an improved mix of business at Tegrant during the period following the anniversary of its November 8, 2011, acquisition also contributed to the improvement in sales and operating profits. For the year, operations within

Tegrant generally performed in line with expectations, except for retail packaging, where customer churn and lower consumer demand in the Company s served markets resulted in lower than expected sales and operating profit. In addition, Tegrant experienced higher manufacturing costs in 2012 associated with temporary production inefficiencies related to the integration of businesses it had previously acquired. These production inefficiencies have been resolved.

Domestic sales were approximately $520 million, up 300% from 2011, and international sales were $35 million, an increase of 25% from 2011. These increases were the result of the acquisition of Tegrant.

Capital spending in the segment included numerous productivity and customer development projects, primarily in the newly acquired Tegrant operations.

Financial position, liquidity and capital resources

Cash flow

Operating activities

Cash flow from operations totaled $403.9 million in 2012 and $245.3 million in 2011, a year-over-year increase of $158.6 million. Lower pension and postretirement plan contributions accounted for approximately $67.0 million of the increase. Changes in working capital levels also had a significant effect on year-over-year cash flows. Trade accounts receivable added $1.2 million to operating cash flows in 2012 as business activity was relatively flat the latter part of 2012 compared with 2011. Trade accounts receivable used $(52.5) million in 2011, for a year-over-year change of $53.7 million, reflecting significantly higher business activity in the latter part of 2011 compared with 2010. The Company s ongoing inventory reduction initiatives provided $16.2 million of operating cash flow in 2012, compared with $3.4 million in 2011, a change of $12.8 million. Other assets and liabilities added $10.2 million to operating cash flow in 2012, compared with using $(14.3) million in 2011, a change of $24.5 million. The majority of this change related to non-trade receivables (business interruption insurance claims and value added tax) that were recorded in 2011 and converted to cash in 2012.

Cash flow from operations totaled $245.3 million in 2011 and $375.1 million in 2010, a year-over-year decrease of $129.8 million. Higher pension and postretirement plan contributions accounted for approximately $112.9 million of the decrease, while decreases in accrued expenses, driven mainly by higher incentive compensation payments in 2011 than in 2010, accounted for a year-over-year reduction in operating cash flows of $31.9 million. Trade accounts receivable levels increased year over year at both December 31, 2011 and 2010, reflecting higher levels of business activity; however, the magnitude of the increase was lower in 2011 resulting in a year-over-year increase in operating cash flows of $13.9 million. Inventories provided cash of $3.4 million in 2011 compared with using $57.1 million of cash in 2010. The change of $60.5 million was due to the build up of inventories in response to higher levels of business activity at December 31, 2010, whereas inventory levels remained somewhat flat year over year at December 31, 2011. The year-over-year improvement in cash provided by inventories was virtually offset by a $57.1 million negative change in cash used by payable to suppliers reflecting payments in 2011 for the inventory purchased at the end of 2010.

Cash flow from operations totaled $375.1 million in 2010 and $390.9 million in 2009, a year-over-year decrease of $15.8 million. Lower year-over-year pension and postretirement plan contributions accounted for an increase in cash flows from operations of approximately $93.0 million. This, and the effect of higher earnings in 2010, was more than offset by an increase in trade accounts receivable stemming from higher levels of business activity and an increased use of cash to fund inventory required by these higher levels of activity.

Investing activities

Cash flow used by investing activities was $183.4 million in 2012, compared with $729.2 million in 2011. This decrease was due primarily to lower year-over-year acquisition spending. The Company acquired Tegrant in November 2011 at a cost of $550 million and completed several smaller acquisitions during 2011 at a total cost of $16.9 million. Acquisition spending in 2012 was limited to a $0.5 million payment for the finalization of the Tegrant purchase. Capital spending increased to $214.9 million in 2012 from $173.4 million in 2011 due in part to the continuation of work on a biomass boiler project at the Hartsville manufacturing complex. Spending on this $75 million project will be complete in 2013. Proceeds from the sale of assets increased year over year by $20.8 million reflecting the sales of several facilities that had been closed as part of restructuring initiatives and insurance proceeds from casualty losses. Capital spending is expected to total approximately $210 million in 2013.

Cash flow used by investing activities was $729.2 million in 2011, compared with $283.7 million in 2010. This increase was due to higher year-over-year acquisition spending driven primarily by the $550 million acquisition of Tegrant in November 2011. Additionally, capital spending increased to $173.4 million in 2011 from $145.9 million in 2010 due in part to construction work on the biomass boiler at our Hartsville manufacturing complex.

Cash flow used by investing activities was $283.7 million in 2010, compared with $91.5 million in 2009. This increase was due largely to a $132.3 million increase in acquisition spending driven primarily by the acquisitions of APT and Madem Reels USA, Inc. Additionally, capital spending increased to $145.9 million in 2010 from $104.1 million in 2009. This increase in capital spending represented a return to a more normal historic level as business conditions improved.

Financing activities

Net cash provided (used) by financing activities totaled $(27.4) million in 2012, compared with $507.5 million in 2011, a change of $(534.9) million. Net borrowings increased $85.7 million in 2012, compared with $660.9 million in 2011. The prior year included an increase in debt to fund the $550 million acquisition of Tegrant. Cash dividends increased 4.2% to $119.8 million in 2012 from $115.0 million in 2011. The Company completed an announced stock buyback of its common shares during 2011. Accordingly, share repurchases were lower in 2012 than in 2011 resulting in a favorable year-over-year change of $45.3 million.

Net cash provided (used) by financing activities totaled $507.5 million in 2011, compared with $(116.6) million in 2010. During the fourth quarter of 2011, the Company issued $500 million of senior unsecured notes consisting of $250 million of new 4.375% Notes due 2021, and an additional $250 million of its 5.75% Notes due 2040. These funds were used for the Tegrant acquisition. Additionally, the Company entered into a $150 million three-year term loan agreement, using a substantial portion of the proceeds to reduce outstanding commercial paper and the remainder for the Tegrant acquisition. Cash dividends increased 2.9% to $115.0 million in 2011 from $111.8 million in 2010, and the Company repurchased approximately 1.4 million shares of its common stock at a cost of $49.4 million during 2011. Net proceeds from the exercise of stock awards totaled $21.3 million in 2011, compared with $23.2 million in 2010. Net borrowings, inclusive of the financing activities described above, increased $660.9 million in 2011, compared with $42.4 million in 2010.

Net cash (used) by financing activities totaled $(116.6) million in 2010, compared with $(219.7) million in 2009. In November 2010, the Company issued $350 million of new 5.75% bonds due November 2040, and used $294.0 million of the proceeds to tender for and redeem approximately 55% of its other outstanding bonds. The cash cost of the tender included $244.1 million of principal, $49.2 million of market

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adjustment and premium paid to tendering bondholders, plus bank and other fees totaling $0.7 million. Additionally, the Company paid off $100 million of 6.75% bonds that matured in November 2010. Cash dividends increased 3.6% to $111.8 million in 2010 from $107.9 million in 2009, and the Company repurchased approximately 0.7 million shares of its common stock at a cost of $24.7 million during 2010. Net proceeds from the exercise of stock awards totaled $23.2 million in 2010. Net borrowings increased $42.4 million in 2010, compared with net repayments of $116.2 million in 2009.

Current assets increased year over year by $188.2 million to $1,499.9 million at December 31, 2012. The increase resulted primarily from higher levels of cash on hand which were utilized early in 2013 to pay down debt. Current liabilities increased year over year by $200.5 million to $1,044.2 million at December 31, 2012, primarily due to an increase in the current portion of long-term debt. These increases were partially offset by lower trade accounts payable. The Company s current ratio was 1.4 at December 31, 2012, and 1.6 at December 31, 2011.

Contractual obligations

The following table summarizes contractual obligations at December 31, 2012:

			Payments Due In			
($ in millions)	*Total*	*2013*	*2014-2015*	*2016-2017*	*Beyond 2017*	*Uncertain*
Debt obligations	$ 1,373.1	$ 273.6	$ 3.6	$ 230.5	$ 865.4	$
Interest payments[1]	1,139.2	63.6	113.9	107.1	854.6	
Operating leases	134.9	42.0	42.4	22.8	27.7	
Income tax contingencies[2]	26.7					26.7
Purchase obligations[3]	302.4	86.4	100.7	68.7	46.6	
Total contractual obligations[4]	$ 2,976.3	$ 465.6	$ 260.6	$ 429.1	$ 1,794.3	$ 26.7

1 Includes interest payments on outstanding fixed-rate, long-term debt obligations, as well as financing fees on the backstop line of credit.

2 Due to the nature of this obligation, the Company is unable to estimate the timing of the cash outflows.

3 Includes only long-term contractual commitments. (Does not include short-term obligations for the purchase of goods and services used in the ordinary course of business.)

4 Excludes potential cash funding requirements of the Company s retirement plans and retiree health and life insurance plans.

Capital resources

The Company s cash balances are held in numerous locations throughout the world. At December 31, 2012 and 2011, approximately $346.7 million and $151.1 million, respectively, of the Company s reported cash and cash equivalents balances of $373.1 million and $175.5 million, respectively, were held outside of the United States by its foreign subsidiaries. The balance at December 31, 2011, is exclusive of the intercompany borrowings from foreign subsidiaries at year end under a short-term lending arrangement to the parent as discussed below. The cash held outside the United States is available to meet local liquidity needs, or for capital expenditures, acquisitions, and other offshore growth opportunities. Under current law, cash repatriated to the U.S. is subject to federal income taxes, less applicable foreign tax credits. As we enjoy ample domestic liquidity through a combination of operating cash flow generation and access to bank and capital markets borrowings, we have generally considered our offshore cash balances to be indefinitely invested outside the United States and, accordingly, had not provided for U.S. federal tax liability on these amounts for financial reporting purposes. In January 2013, the Company repatriated $233 million of its offshore cash, utilizing it to pay down existing debt. The Company intends to repatriate an additional $27 million during the balance of 2013. The transactions to repatriate these funds were initiated in late 2012 and, accordingly, the Company recognized U.S. federal tax expense on these amounts in its 2012 financial statements. The Company has no plans to repatriate other cash balances held outside the United States. However, if such balances were to be repatriated, additional U.S. federal income tax payments in future years could result. Computation of the potential deferred tax liability associated with unremitted earnings deemed to be indefinitely reinvested is not practicable. We utilize a variety of tax planning and financing strategies to ensure that our worldwide cash is available in the locations where it is needed.

Under Internal Revenue Service rules, U.S. corporations may borrow funds from foreign subsidiaries for up to 30 days without unfavorable tax consequences. At various times throughout 2012 and 2011, including December 31, 2011, the Company utilized this rule to access offshore cash in lieu of issuing commercial paper. Amounts outstanding under the rule at December 31, 2011, totaled $145 million. These short-term lending arrangements were subsequently settled within the allowable period, resulting in equivalent increases in commercial paper outstanding and cash on hand. The Company did not access any offshore cash under this rule at December 31, 2012. Depending on its immediate offshore cash needs, the Company may choose to access such funds again in the future as allowed under the rule.

The Company currently operates a $350 million commercial paper program, supported by a committed bank credit facility of the same amount. In October 2012, the Company entered into an amended and restated credit agreement for that facility with a syndicate of eight banks. The bank credit facility is committed through October 2017. If circumstances were to prevent the Company from issuing commercial paper, it has the contractual right to draw funds directly on the underlying bank credit facility. Outstanding commercial paper totaled $152 million and $27 million at December 31, 2012 and 2011, respectively.

The Company s total debt at December 31, 2012, was $1,373.1 million, a year-over-year increase of $86.4 million stemming primarily from higher levels of outstanding commercial paper. At December 31, 2011, the Company accessed $145 million of offshore cash under a short-term lending arrangement in lieu of issuing commercial paper, whereas no such funds were accessed at December 31, 2012.

As noted above, in January 2013 the Company repatriated a total of $233 million of accumulated offshore cash, using $135 million to pay off the balance of a term loan entered into in November 2011 to fund the purchase of Tegrant Holding Corporation. The remainder of the repatriated cash was utilized to pay down commercial paper. The Company intends to repatriate an additional $27 million during 2013 and also to use those funds to repay debt.

The Company uses a notional pooling arrangement with an international bank to help manage global liquidity requirements. Under this pooling arrangement, the Company and its participating subsidiaries may maintain either a cash deposit or borrowing position through local currency accounts with the bank, so long as the aggregate position of the global pool is a notionally calculated net cash deposit. Because it maintains a security interest in the cash deposits, and has the right to offset the cash deposits against the borrowings, the bank provides the Company and its participating subsidiaries favorable interest terms on both.

Acquisitions and internal investments are key elements of the Company s growth strategy. The Company believes that cash on hand, cash generated from operations and the available borrowing capacity under its existing credit agreement will enable it to support this strategy. Although the Company currently has no intent to do so, it may obtain additional financing in order to pursue its growth strategy. Although the Company believes that it has excess borrowing capacity beyond its current lines, there can be no assurance that such financing would be available or, if so, at terms that are acceptable to the Company.

The Company s various U.S and international defined benefit pension and postretirement plans were underfunded at the end of 2012 by approximately $479 million. During 2012, the Company contributed approximately $75 million to its benefit plans. The Company anticipates that benefit plan contributions in 2013 will total approximately $43 million. Future funding requirements will depend largely on actual investment returns and future actuarial assumptions. Participation in the U.S. qualified defined benefit pension plan is frozen for salaried and non-union hourly U.S. employees hired on or after January 1, 2004. In February 2009, the plan was further amended to freeze service credit earned effective December 31, 2018. This change is expected to moderately reduce the volatility of long-term funding exposure and expenses.

Total equity increased $77.8 million during 2012 as net income of $196.1 million was offset by other comprehensive losses totaling $15.0 million and dividend payments of $121.3 million. The primary components of other comprehensive loss were a $25.0 million translation gain from the impact of a weaker U.S. dollar on the Company s foreign investments and a $41.5 million net defined benefit plan adjustment reflecting actuarial losses in the Company s various defined benefit plans, which resulted primarily from lower discount rates partially offset by higher than expected returns on plan assets. Total equity decreased $82.3 million during 2011, as net income of $218.0 million was offset by other comprehensive losses totaling $167.5 million and dividend payments of $116.2 million. The primary components of other comprehensive loss were a $39.1 million translation loss from the impact of a stronger U.S. dollar on the Company s foreign investments and a $127.8 million net defined benefit plan adjustment reflecting actuarial losses in the Company s various defined benefit plans resulting from lower discount rates and lower than expected returns on plan assets.

The Company s Board of Directors has authorized the repurchase of up to 5 million shares of the Company s common stock. On December 3, 2010, the Company announced it would immediately begin repurchasing 2 million shares of the 5 million shares authorized. During 2010, a total of 0.7 million shares were repurchased under this program at a cost of $23.2 million. During the first quarter of 2011, an additional 1.3 million shares were repurchased at a cost of $46.3 million, completing the announced buyback. On April 20, 2011, the Company s Board of Directors reinstated 2 million shares to its authorization. No additional shares have been repurchased since the reinstatement. Accordingly, at December 31, 2012, a total of 5 million shares remain available for repurchase.

Although the ultimate determination of whether to pay dividends is within the sole discretion of the Board of Directors, the Company plans to increase dividends as earnings grow. Dividends per common share were $1.19 in 2012, $1.15 in 2011 and $1.11 in 2010. On February 13, 2013, the Company declared a regular quarterly dividend of $0.30 per common share payable on March 8, 2013, to shareholders of record on February 27, 2013.

Off-balance sheet arrangements

The Company had no material off-balance sheet arrangements at December 31, 2012.

Risk management

As a result of operating globally, the Company is exposed to changes in foreign exchange rates. The exposure is well diversified, as the Company s facilities are spread throughout the world, and the Company generally sells in the same countries where it produces. The Company monitors these exposures and may use traditional currency swaps and forward exchange contracts to hedge a portion of forecasted transactions that are denominated in foreign currencies, foreign currency assets and liabilities or net investment in foreign subsidiaries. The Company s foreign operations are exposed to political and cultural risks, but the risks are mitigated by diversification and the relative stability of the countries in which the Company has significant operations. The Company has operations in Venezuela that, beginning January 1, 2010, are being accounted for as hyperinflationary. These operations have net assets of approximately $4 million and annual net sales of approximately $10 million. Accounting for these operations as hyperinflationary did not have a material effect on the Company s financial statements during any of the periods

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presented. The February 2013 announced devaluation of the Venezuelan currency is not expected to have a material impact on the Company s 2013 financial statements.

The Company is exposed to interest-rate fluctuations as a result of using debt as a source of financing for its operations. The Company may, from time to time, use traditional, unleveraged interest-rate swaps to manage its mix of fixed and variable rate debt and to control its exposure to interest rate movements within select ranges.

The Company is a purchaser of various raw material inputs such as recovered paper, energy, steel, aluminum and resin. The Company generally does not engage in significant hedging activities, other than for energy and, from time to time, aluminum, because there is usually a high correlation between the primary input costs and the ultimate selling price of its products. Inputs are generally purchased at market or at fixed prices that are established with individual vendors as part of the purchase process for quantities expected to be consumed in the ordinary course of business. On occasion, where the correlation between selling price and input price is less direct, the Company may enter into derivative contracts such as futures or swaps to manage the effect of price fluctuations.

At December 31, 2012, the Company had contracts outstanding to hedge the price on a portion of anticipated commodity and energy purchases as well as to hedge certain foreign exchange risks for various periods through December 2015. These contracts included swaps to cover approximately 7.3 million MMBTUs of natural gas representing approximately 77% and 38% of anticipated U.S. and Canadian natural gas usage for 2013 and 2014, respectively. Additionally, the Company had swap contracts covering 4,161 metric tons of aluminum, representing approximately 41% of anticipated usage for 2013, and 14,625 short tons of OCC representing approximately 2% of anticipated usage for 2013. Both the aluminum and OCC hedges relate to fixed-price customer contracts. At December 31, 2012, the Company had a number of foreign currency contracts in place as both designated and undesignated hedges of either anticipated foreign currency denominated transactions or existing financial assets and liabilities. At December 31, 2012, the total notional amount, in U.S. dollar terms, was $352 million, of which $249 million related to the euro, $52 million to the Canadian dollar, $25 million to the Mexican peso and $9 million to the British pound sterling.

The fair market value of derivatives was a net unfavorable position of $10.1 million at December 31, 2012, and a net unfavorable position of $14.1 million at December 31, 2011. Derivatives are marked to fair value using published market prices, if available, or estimated values based on current price quotes and a discounted cash flow model. See Note 9 to the Consolidated Financial Statements for more information on financial instruments.

The Company is subject to various federal, state and local environmental laws and regulations concerning, among other matters, solid waste disposal, wastewater effluent and air emissions. Although the costs of compliance have not been significant due to the nature of the materials and processes used in manufacturing operations, such laws also make generators of hazardous wastes and their legal successors financially responsible for the cleanup of sites contaminated by those wastes. The Company has been named a potentially responsible party at several environmentally contaminated sites. These regulatory actions and a small number of private party lawsuits are believed to represent the Company s largest potential environmental liabilities. The Company has accrued $75.6 million (including $54.0 million associated with U.S. Mills) at December 31, 2012, compared with $78.6 million at December 31, 2011 (including $56.8 million associated with U.S. Mills), with respect to these sites. See Environmental Charges, Item 3 Legal Proceedings and Note 14 to the Consolidated Financial Statements for more information on environmental matters.

Results of operations 2011 versus 2010

Consolidated net sales for 2011 were $4.5 billion, a $375 million, or 9.1%, increase from 2010.

The components of the sales change were:

($ in millions)	
Volume/Mix	$ 16
Selling price	176
Acquisitions	135
Currency exchange rate/Other	48
Total sales increase	$ 375

Higher selling prices and acquisitions were key drivers and together accounted for more than 80% of the sales increase. Although volume was modestly positive overall, results were mixed across the Company s various businesses. Volume was essentially flat overall as a slight increase in consumer-related businesses was largely offset by other declines. The impact of higher selling prices was more predominant in the Paper and Industrial Converted Products segment, where the gains were principally driven by higher recovered paper prices. Significantly higher prices were also seen in the Consumer Packaging segment due to higher material costs, primarily plastic resins and tinplate steel. In addition, year-over-year sales benefited from acquisitions, primarily the June 2010 acquisition of APT and the November 2011 acquisition of Tegrant. Total domestic sales were $2.8 billion, up 6% from 2010 levels. International sales were $1.7 billion, up 15% from 2010.

Costs and expenses

Higher input prices, acquisitions and the impact of exchange rates combined to increase the Company s 2011 total cost of sales from prior year levels. Market prices for recovered paper, the Company s most significant raw material in dollar terms, were higher in 2011 than 2010. Prices paid for resins, metal, energy and freight were also up year over year. Acquisitions accounted for approximately $120 million of the year-over-year increase in reported cost of sales. Gross profit margins declined year over year due largely to negative mix and the impact of inflation in labor and other costs more than offsetting productivity improvements, which, while positive, were lower than recent years experience and management s expectations.

In 2011, aggregate pension and postretirement expenses decreased $15.7 million to $36.9 million, versus $52.6 million in 2010. Approximately 75% of these expenses are reflected in cost of sales, with the balance in selling, general and administrative expenses. The lower expense resulted in part from higher total expected returns on assets due to the strong investment performance in 2010 and an $85 million contribution made on January 13, 2011. Also contributing to the year-over-year decrease was lower amortization expense resulting primarily from a plan amendment that split the U.S. qualified defined benefit plan into two separate plans, one including only active participants and another including only inactive participants. Actuarial losses on the combined plan in 2010 were amortized over the average remaining service life of the active participants. Following the split into two plans at the beginning of 2011, the basis for amortizing actuarial losses for the inactive plan changed to the average remaining life expectancy of the plan participants, a longer period of time than the average remaining service life of the active participants.

Selling, general and administrative expenses as a percentage of sales declined to 8.8% for the year from 9.8% in 2010, and decreased in total by $7.9 million year over year. This decrease in spending was largely due to lower incentive compensation costs, lower pension expense, and insurance proceeds partially offset by acquisitions and exchange rates.

Research and development costs, all of which were charged to expense, were $18.8 million and $17.8 million in 2011 and 2010, respectively. Management expects research and development spending in 2012 to be consistent with 2011 levels, excluding the impact of acquisitions on reported amounts.

Net interest expense totaled $38.1 million for the year ended December 31, 2011, compared with $35.1 million in 2010. The increase was due primarily to higher average debt levels. In November 2011, the Company issued $500 million of senior unsecured notes consisting of $250 million of 4.375% Notes due 2021 and an additional $250 million of its 5.75% Notes due 2040. These funds were used for the Tegrant acquisition. Additionally, the Company entered into a $150 million three-year Term Loan Agreement, using a substantial portion of the proceeds to reduce outstanding commercial paper and the remainder for the Tegrant acquisition. In November 2010, the Company issued $350 million of new 5.75% thirty-year bonds, and used the majority of the proceeds to tender for and redeem approximately 55% in principal amount of its other outstanding bonds. This debt extinguishment resulted in a pretax charge of $48.6 million in 2010.

Reportable segments

Consolidated operating profits, also referred to as Income before interest and income taxes on the Consolidated Statements of Income, are comprised of the following:

($ in millions)	*2011*	*2010*	*% Change*
Segment operating profit			
Consumer Packaging	$ 191.5	$ 196.0	(2.3)%
Paper and Industrial Converted Products	138.2	136.4	1.3%
Display and Packaging	21.7	14.2	53.5%
Protective Solutions	15.2	17.5	(13.0)%
Restructuring/Asset impairment charges	(36.8)	(24.0)	(53.4)%
Acquisition-related costs	(12.3)	(1.9)	(543.8)%
Property insurance gains	5.0		100.0%
Loss from early extinguishment of debt		(48.6)	100.0%
Consolidated operating profits	$ 322.5	$ 289.6	11.4%

Consumer Packaging

($ in millions)	*2011*	*2010*	*% Change*
Trade sales	$ 1,977.3	$ 1,798.5	9.4%
Segment operating profits	191.5	196.0	(2.3)%
Depreciation, depletion and amortization	80.3	74.7	7.5%
Capital spending	60.8	66.3	(8.3)%

Sales increased year over year primarily due to higher selling prices, the July 2010 acquisition of APT, and increased volume of flexible packaging and plastics products. Overall segment volumes, excluding the acquisition of APT, were up slightly over 1%. Selling prices were higher throughout the segment, reflecting increases in the cost of most major inputs. Domestic sales were approximately $1,472 million, up 8.8%, or $119 million, from 2010, while international sales were approximately $505 million, up 13.2%, or $59 million, from 2010.

Segment operating profits decreased as the benefits of higher volume, productivity improvements and lower pension costs were more than offset by negative price/cost and other inflation. Higher materials costs, including paper, metal and resins accounted for the majority of the increase in total costs and fully offset the benefit of higher prices.

Significant capital spending in the Consumer Packaging segment included projects to increase rigid paper and rigid plastic container production capacity in the United States and productivity projects throughout the segment.

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Paper and Industrial Converted Products

($ in millions)	2011	2010	% Change
Trade sales	$ 1,892.2	$ 1,744.0	8.5%
Segment operating profits	138.2	136.4	1.3%
Depreciation, depletion and amortization	86.6	84.4	2.6%
Capital spending	86.8	63.9	35.8%

Reported segment sales were up almost entirely due to higher selling prices and exchange rates. Increased volume in reels and paper was offset by lower tubes and cores volume in almost every region of the world on weaker demand. Tubes and cores market share is estimated to have remained relatively flat year over year. Higher selling prices, primarily due to higher average market costs for OCC, accounted for most of the reported revenue increase. Domestic sales increased $68 million, or 7.1%, to $1,026 million. International sales increased $81 million, or 10.3%, to $867 million, with approximately $47 million of the increase a result of favorable foreign exchange rates.

While relatively flat overall volume and a negative mix were a drag on operating results, they were more than offset by a positive price/cost relationship and productivity improvements. Lower pension expenses offset nearly all of the inflation seen in other costs. Although positive, productivity improvements were below both historical levels and management s expectations for the year, due largely to volume that was both tepid and unpredictable, making it difficult to drive and maintain production efficiencies from period to period.

Significant capital spending included the modification of several paper machines, primarily in North America and Europe, productivity projects throughout the segment, and the replacement of a portion of the molded plug equipment destroyed by fire in 2010.

Display and Packaging

($ in millions)	2011	2010	% Change
Trade sales	$ 471.5	$ 477.2	(1.2)%
Segment operating profits	21.7	14.2	52.8%
Depreciation, depletion and amortization	7.4	8.8	(15.9)%
Capital spending	4.6	8.3	(44.9)%

As a result of bidding activity conducted in the fourth quarter of 2009 by a major customer, the Company lost approximately $45 million of that customer s annual business beginning in mid-2010. The year-over-year impact of this lost business totaled approximately $19 million in 2011. Further, another of the segment s customers consolidated its business with another vendor beginning in July 2011. Growth from new business, largely in Poland and Mexico, was able to offset much of the 2011 revenue impact from the lost business. Domestic sales decreased to approximately $193 million, a 29.6% reduction, while international sales increased 36.9% to approximately $278 million. The increase in international sales was a result of increased service center volume in Poland and Mexico and, to a lesser extent, the impact of exchange rates.

Segment operating profits were higher as positive price/cost and mix, along with lower pension expense and overhead costs, all contributed to the year-over-year improvement. A customer relocation and the lost business mentioned above worked to reduce overhead costs while the mix of business during these transitions was favorable to segment profitability. In addition, 2011 operating profits benefited from non-recurring incentive payments related to the transition of business to the alternate vendor.

Capital spending included capacity expansion in South America and Poland, some manufacturing consolidation in the United States, as well as numerous productivity and customer development projects in the United States and Europe.

Protective Solutions

($ in millions)	2011	2010	% Change
Trade sales	$ 158.0	$ 104.4	51.3%
Operating profits	15.2	17.5	(13.1)%
Depreciation, depletion and amortization	5.6	1.8	211.1%
Capital spending	3.9	0.9	314.1%

Sales in the Protective Solutions segment increased due to the acquisition of Tegrant as volume was off approximately 8% in the Company s legacy protective packaging business on weak demand, particularly in the appliance market. Domestic sales were approximately $130 million, up 71.1% from 2010, and international sales were approximately $28 million, essentially unchanged from 2010.

Operating profits in this segment decreased due primarily to lower volume and negative price/cost in the legacy business. The decrease was partially mitigated by productivity improvements, cost controls, favorable exchange rates and the inclusion of Tegrant s post-acquisition results.

Capital spending included numerous productivity and customer development projects in the newly acquired Tegrant operations as well as the legacy protective packaging operations.

Critical accounting policies and estimates

Management s discussion and analysis of the Company s financial condition and results of operations are based upon the Company s Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The Company evaluates these estimates and assumptions on an ongoing basis, including but not limited to those related to inventories, bad debts, derivatives, income taxes, intangible assets, restructuring, pension and other postretirement benefits, environmental liabilities, and contingencies and litigation. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates. The impact of and any associated risks related to estimates, assumptions and accounting policies are discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to the Consolidated Financial Statements, if applicable, where such estimates, assumptions and accounting policies affect the Company s reported and expected financial results.

The Company believes the accounting policies discussed in the Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K are critical to understanding the results of its operations. The following discussion represents those policies that involve the more significant judgments and estimates used in the preparation of the Company s Consolidated Financial Statements.

Impairment of long-lived, intangible and other assets

Assumptions and estimates used in the evaluation of potential impairment can result in adjustments affecting the carrying values of long-lived, intangible and other assets and the recognition of impairment expense in the Company s Consolidated Financial Statements. The Company evaluates its long-lived assets (property, plant and equipment), definite-lived intangible assets and other assets (including notes receivable and equity investments) for impairment whenever indicators of impairment exist, or when it commits to sell the asset. If the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible asset group is less than the carrying value of that asset group, an asset impairment charge is recognized. Key assumptions and estimates used in the cash flow model generally include price levels, sales growth, profit margins and asset life. The amount of an impairment charge, if any, is calculated as the excess of the asset s carrying value over its fair value, generally represented by the discounted future cash flows from that asset or, in the case of assets the Company evaluates for sale, as estimated proceeds less costs to sell. The Company takes into consideration historical data and experience together with all other relevant information available when estimating the fair values of its assets. However, fair values that could be realized in actual transactions may differ from the estimates used to evaluate impairment. In addition, changes in the assumptions and estimates may result in a different conclusion regarding impairment.

Impairment of goodwill

In accordance with ASC 350, the Company assesses its goodwill for impairment annually and from time to time when warranted by the facts and circumstances surrounding individual reporting units or the Company as a whole. If the carrying value of a reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized for the excess. The Company s reporting units are one level below its operating segments, as determined in accordance with ASC 350.

The Company completed its most recent annual goodwill impairment testing during the third quarter of 2012. When assessing goodwill, the Company considers certain qualitative and quantitative factors. Qualitative factors include the macroeconomic environment, Company stock price and market capitalization movement, business strategy changes, and significant customer wins and losses. Quantitative factors include the amount by which the estimated fair value of a reporting unit exceeds its current carrying value, current year operating performance as compared to prior projections, and implied fair values from comparable trading and transaction multiples. Based on the results of its qualitative and quantitative assessments performed during the year, the Company has concluded that there has been no impairment of goodwill for any of its reporting units.

When the Company estimates the fair value of a reporting unit, it does so using a discounted cash flow model based on projections of future years operating results and associated cash flows, together with comparable trading and transaction multiples. The Company s model discounts future cash flows, forecasted over a 10-year period, with an estimated residual growth rate. The Company s projections incorporate management s best estimates of the expected future results, which include expectations related to new business awards, and, where applicable, improved operating margins. Future cash flows are discounted to present value using a discount rate management believes is commensurate with the risks inherent in the cash flows.

The Company s assessments, whether qualitative or quantitative, incorporate management s expectations for the future, including forecasted growth rates and/or margin improvements. Therefore, should there be changes in the relevant facts and circumstances and/or expectations, management s assessment regarding goodwill impairment may change as well.

Although no reporting units have failed a qualitative or quantitative assessment of goodwill impairment, in management s opinion, the reporting units with significant goodwill having the greatest risk of future impairment if actual results are not as expected are Plastics Blowmolding, Rigid Paper Europe and Plastics Thermoforming. Total goodwill associated with these reporting units was approximately $130 million, $10 million and $53 million, respectively, at December 31, 2012.

Plastics Blowmolding manufactures blow-molded plastic containers primarily for use in nonfood applications. This reporting unit is the result of the purchase of Matrix Packaging in May 2007 which was acquired to be a growth platform for the Company and to provide an avenue into the health and beauty market. Since that time, the Company has continued to invest significantly in the business, and current projections for this reporting unit reflect management s expectations for revenue growth as well as improvements in operating margins. Sales growth is expected to be driven by new business from key nonfood customers, expansion into more food-based applications and collaboration with large-scale packaging service providers. Should the sales growth and margin improvements not materialize, a goodwill impairment charge may be incurred. Based on the valuation work performed for the current year test, the estimated fair value of Plastics Blowmolding exceeded its carrying value by approximately 29%.

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Rigid Paper Europe manufactures round and shaped composite paperboard cans, single-wrap paperboard packages and fiber cartridges. Results in this unit declined substantially during the global recession, experiencing declines in both volume and profit margins. Recovery in this business following the global recession has not occurred as quickly as management previously anticipated due to ongoing economic issues in the Eurozone and certain market opportunities that are evolving more slowly than expected. Although delayed, management expects a significant recovery in sales volume over the next several years and an improvement in profit margins due to price/cost, productivity gains and fixed cost leverage. However, should the projected improvements fall short of management s expectations, a goodwill impairment charge may be incurred. In its evaluation of goodwill impairment, management estimated that the fair value of Rigid Paper Europe exceeded its carrying value by approximately 80%.

Plastics Thermoforming primarily manufactures monolayer, coated and barrier and non-barrier laminated tubs, cups, spools and trays. Historically, one of its more significant product categories has been dual-ovenable trays for the frozen foods markets. The Company has been seeing a shift away from these trays to less expensive microwave only trays, which has put pressure on sales and margins within this business. This shift, together with production inefficiencies in the latter half of 2012 associated with the consolidation of operations and management changes, resulted in current year operating results that fell short of expectations. Management is working to address the production issues experienced in late 2012 and is currently developing the operational capacity to pursue identified new business opportunities. These actions are expected to begin driving meaningful sales and margin growth within the coming year. However, should the expected sales growth and margin improvements not materialize, a goodwill impairment charge may be incurred.

Although goodwill of the Display and Packaging reporting unit is not currently considered to be at risk of impairment, a large portion of sales in this unit is concentrated in one customer and will be up for renegotiation over the next few years. Management expects to retain this business; however, if a significant amount is lost and not replaced, it is possible that a goodwill impairment charge may be incurred. Total goodwill associated with this reporting unit was approximately $158 million at December 31, 2012. Based on its assessment of fair value performed for the current year test, the estimated fair value of Display and Packaging exceeded its carrying value by approximately 48%.

Holding the other valuation assumptions constant, Plastics Blowmolding s projected operating profits across all future periods would have to decline approximately 20% before the reporting unit s carrying value is deemed to be in excess of its fair value. The corresponding percentages for Rigid Paper Europe, Plastics Thermoforming and Display and Packaging are approximately 30%, 40% and 40%, respectively. The future operating performance of these units is dependent upon a number of variables that cannot be predicted with certainty.

During the time subsequent to the annual evaluation, and at December 31, 2012, the Company considered whether any events and/or changes in circumstances had resulted in the likelihood that the goodwill of any of its reporting units may have been impaired. It is management s opinion that no such events have occurred.

Income taxes

The Company follows ASC 740, Accounting for Income Taxes, which requires a reduction of the carrying amounts of deferred tax assets by recording a valuation allowance if, based on the available evidence, it is more likely than not such assets will not be realized. Deferred tax assets generally represent expenses recognized for financial reporting purposes, which will result in tax deductions over varying future periods. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred tax consequences represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.

For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. For those positions not meeting the more-likely-than-not standard, no tax benefit has been recognized in the financial statements. Associated interest has also been recognized, where applicable.

The estimate for the potential outcome of any uncertain tax issue is highly judgmental. The Company believes it has adequately provided for any reasonably foreseeable outcome related to these matters. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitations on potential assessments expire. Additionally, the jurisdictions in which earnings or deductions are realized may differ from current estimates. As a result, the eventual resolution of these matters could have a different impact on the effective rate than currently reflected or expected.

Stock-based compensation plans

The Company utilizes share-based compensation in the form of stock options, stock appreciation rights, restricted stock units and other share-based awards. Certain awards are in the form of contingent stock units where both the ultimate number of units and the vesting period are performance based. The amount and timing of compensation expense associated with these performance-based awards are based on estimates regarding future performance using measures defined in the plans. In 2012, the performance measures consisted of Earnings per Share and Return on Net Assets Employed. Changes in estimates regarding the future achievement of these performance measures may result in significant fluctuations from period to period in the amount of compensation expense reflected in the Company s Consolidated Financial Statements.

The Company uses an option-pricing model to determine the grant date fair value of its stock options and stock appreciation rights. Inputs to the model include a number of subjective assumptions. Management routinely assesses the assumptions and methodologies used to calculate estimated fair value of share-based compensation. Circumstances may change and additional data may become available over time that results in changes to these assumptions and methodologies, which could materially impact fair value determinations.

Pension and postretirement benefit plans

The Company has significant pension and postretirement benefit liabilities and costs that are measured using actuarial valuations. The actuarial valuations employ key assumptions that can have a significant effect on the calculated amounts. The key assumptions used at December 31, 2012, in determining the projected benefit obligation and the accumulated benefit obligation for U.S. retirement and retiree health and life insurance plans include: discount rates of 4.26% and 3.73% for the active and inactive qualified retirement plans, respectively, 3.64% for the nonqualified retirement plans, and 3.16% for the retiree health and life insurance plan; and rates of compensation increases ranging from 3.51% to 6.82%. The key assumptions used to determine 2012 net periodic benefit cost for U.S. retirement and retiree health and life insurance plans include: discount rates of 4.76% and 4.33% for the active and inactive qualified retirement plans, respectively, 4.23% for the nonqualified retirement plans, and 3.76% for the retiree health and life insurance plan; an expected long-term rate of return on plan assets of 8.0% and 7.7% for the active and inactive qualified retirement plans, respectively; and rates of compensation increases ranging from 4.15% to 6.02%.

During 2012, the Company recorded total pension and postretirement benefit expenses of approximately $52.9 million, compared with $36.9 million during 2011. The 2012 amount reflects $85.3 million of expected returns on plan assets at an average assumed rate of 7.4% and interest cost of $71.0 million at a weighted-average discount rate of 4.56%. The 2011 amount reflects $85.5 million of expected returns on plan assets at an assumed rate of 7.7% and interest cost of $72.5 million at a weighted-average discount rate of 5.23%. During 2012, the Company made contributions to its pension and postretirement plans of $75.1 million. In the prior year, the Company made contributions to its pension and postretirement plans totaling $142.1 million, including an $85.0 million contribution made in January 2011 to its U.S. qualified defined benefit pension plan designated for the 2010 plan year. Contributions vary from year to year depending on various factors, the most significant being the market value of assets and interest rates. Cumulative net actuarial losses were approximately $745 million at December 31, 2012, and are primarily the result of low discount rates and the poor asset performance in 2008. Actuarial losses/gains outside of the 10% corridor defined by U.S. GAAP are amortized over the average remaining service life of the plan s active participants or the average remaining life expectancy of the plan s inactive participants (if all, or almost all, of the plan s participants are inactive).

The Company is projecting total benefit plan expense in 2013 to be approximately $12 million higher than in 2012 due primarily to higher amortization expense, the inclusion of Tegrant employees in the Sonoco Investment and Retirement Plan effective January 1, 2013, and lowering the expected long-term rate of return for the active and inactive qualified retirement plans from 8.0% to 7.85% and from 7.7% to 7.55%, respectively. The higher amortization expense is due primarily to additional actuarial losses recorded in 2012 driven by lower discount rates and the conclusion of the amortization period for prior service credits related to 2004 amendments made to the Company s U.S. Retiree Health and Life Insurance plans.

The Company adjusts its discount rates at the end of each fiscal year based on yield curves of high-quality debt instruments over durations that match the expected benefit payouts of each plan. The expected rate of return assumption is derived by taking into consideration the targeted plan asset allocation, projected future returns by asset class and active investment management. A third party asset return model was used to develop an expected range of returns on plan investments over a 12- to 15-year period, with the expected rate of return selected from a best estimate range within the total range of projected results. The Company periodically rebalances its plan asset portfolio in order to maintain the targeted allocation levels. The rate of compensation increase assumption is generally based on salary and incentive increases. A key assumption for the U.S. retiree health and life insurance plan is a medical cost trend rate beginning at 8.3% for post-age 65 participants and trending down to an ultimate rate of 6.16% in 2045. The ultimate trend rate of 6.16% represents the Company s best estimate of the long-term average annual medical cost increase over the duration of the plan s liabilities. It provides for real growth in medical costs in excess of the overall inflation level.

Other assumptions and estimates impacting the projected liabilities of these plans include inflation, participant withdrawal and mortality rates and retirement ages. The Company annually re-evaluates assumptions used in projecting the pension and postretirement liabilities and associated expense. These judgments, assumptions and estimates may affect the carrying value of pension and postretirement plan net assets and liabilities and pension and postretirement plan expenses in the Company s Consolidated Financial Statements. The sensitivity to changes in the critical assumptions for the Company s U.S. plans as of December 31, 2012, is as follows:

Assumption *($ in millions)*	*Percentage Point Change*	*Projected Benefit Obligation Higher/(Lower)*	*Annual Expense Higher/ (Lower)*
Discount rate	-.25 pts	$ 45.5	$ 2.6
Expected return on assets	-.25 pts	N/A	$ 2.3

See Note 12 to the Consolidated Financial Statements for additional information on the Company s pension and postretirement plans.

Recent accounting pronouncements

Information regarding recent accounting pronouncements is provided in Note 2 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Item 7A. Quantitative and qualitative disclosures about market risk

Information regarding market risk is provided in this Annual Report on Form 10-K under the following items and captions: Conditions in foreign countries where the Company operates may reduce earnings and Foreign exchange rate fluctuations may reduce the Company s earnings in Item 1A-Risk Factors; Risk Management in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations; and in Note 8 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data.

Item 8. Financial statements and supplementary data

The Consolidated Financial Statements and Notes to the Consolidated Financial Statements are provided on pages F-1 through F-29 of this report. Selected quarterly financial data is provided in Note 18 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and directors of Sonoco Products Company:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Sonoco Products Company and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Charlotte, North Carolina

March 1, 2013

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CONSOLIDATED BALANCE SHEETS

Sonoco Products Company

(Dollars and shares in thousands)

At December 31	*2012*	*2011*
Assets		
Current Assets		
Cash and cash equivalents	**$ 373,084**	$ 175,523
Trade accounts receivable, net of allowances of $7,252 in 2012 and $7,125 in 2011	**619,761**	606,785
Other receivables	**36,311**	43,378
Inventories		
Finished and in process	**159,193**	157,891
Materials and supplies	**224,079**	237,431
Prepaid expenses	**65,395**	63,896
Deferred income taxes	**22,073**	26,806
	1,499,896	1,311,710
Property, Plant and Equipment, Net	**1,034,906**	1,013,622
Goodwill	**1,110,505**	1,104,776
Other Intangible Assets, Net	**276,809**	304,600
Long-term Deferred Income Taxes	**90,936**	87,256
Other Assets	**163,013**	170,835
Total Assets	**$ 4,176,065**	$ 3,992,799
Liabilities and Equity		
Current Liabilities		
Payable to suppliers	**$ 426,786**	$ 436,732
Accrued expenses and other	**281,532**	292,123
Accrued wages and other compensation	**56,004**	55,680
Notes payable and current portion of long-term debt	**273,608**	53,666
Accrued taxes	**6,305**	5,551
	1,044,235	843,752
Long-term Debt	**1,099,454**	1,232,966
Pension and Other Postretirement Benefits	**461,881**	420,048
Deferred Income Taxes	**15,649**	16,154
Other Liabilities	**51,632**	54,471
Commitments and Contingencies		
Sonoco Shareholders Equity		
Serial preferred stock, no par value		
Authorized 30,000 shares		
0 shares issued and outstanding as of December 31, 2012 and 2011		
Common shares, no par value		
Authorized 300,000 shares		
100,847 and 100,211 shares issued and outstanding at December 31, 2012 and 2011, respectively	**7,175**	7,175
Capital in excess of stated value	**445,492**	427,484
Accumulated other comprehensive loss	**(475,826)**	(460,299)
Retained earnings	**1,512,145**	1,437,435
Total Sonoco Shareholders Equity	**1,488,986**	1,411,795
Noncontrolling Interests	**14,228**	13,613
Total Equity	**1,503,214**	1,425,408
Total Liabilities and Equity	**$ 4,176,065**	$ 3,992,799

The Notes beginning on page F-6 are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

Sonoco Products Company

(Dollars and shares in thousands except per share data)

Years ended December 31	*2012*	*2011*	*2010*
Net sales	**$ 4,786,129**	$ 4,498,932	$ 4,124,121
Cost of sales	**3,942,497**	3,742,149	3,356,589
Gross profit	**843,632**	756,783	767,532
Selling, general and administrative expenses	**463,715**	397,477	405,356
Restructuring/Asset impairment charges	**32,858**	36,826	23,999
Income before interest and income taxes	**347,059**	322,480	338,177
Interest expense	**64,114**	41,832	37,413
Interest income	**4,129**	3,758	2,307
Loss from the early extinguishment of debt			48,617
Income before income taxes	**287,074**	284,406	254,454
Provision for income taxes	**103,759**	78,423	64,485
Income before equity in earnings of affiliates	**183,315**	205,983	189,969
Equity in earnings of affiliates, net of tax	**12,805**	12,061	11,505
Net income	**196,120**	218,044	201,474
Net (income) attributable to noncontrolling interests	**(110)**	(527)	(421)
Net income attributable to Sonoco	**$ 196,010**	$ 217,517	$ 201,053
Weighted average common shares outstanding:			
Basic	**101,804**	101,071	101,599
Assuming exercise of awards	**769**	1,102	944
Diluted	**102,573**	102,173	102,543
Per common share			
Net income attributable to Sonoco:			
Basic	**$ 1.93**	$ 2.15	$ 1.98
Diluted	**$ 1.91**	$ 2.13	$ 1.96
Cash dividends	**$ 1.19**	$ 1.15	$ 1.11

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Sonoco Products Company

(Dollars in thousands)

Years ended December 31	*2012*	*2011*	*2010*
Net income	**$ 196,120**	$ 218,044	$ 201,474
Other comprehensive income/(loss):			
Foreign currency translation adjustments	**25,016**	(39,051)	8,119
Changes in defined benefit plans, net of tax	**(41,498)**	(127,798)	13,621
Change in derivative financial instruments, net of tax	**1,460**	(672)	(2,906)
Comprehensive income	**181,098**	50,523	220,308
Comprehensive (income) attributable to noncontrolling interests	**(615)**	(438)	(1,653)
Comprehensive income attributable to Sonoco	**$ 180,483**	$ 50,085	$ 218,655

The Notes beginning on page F-6 are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

Sonoco Products Company

		Common Shares		*Capital in Excess of Stated*	*Accumulated Other Comprehensive*		*Non-controlling*
	Total					*Retained*	
(Dollars and shares in thousands)	*Equity*	*Outstanding*	*Amount*	*Value*	*Loss*	*Earnings*	*Interests*
January 1, 2010	$ 1,380,630	100,149	$ 7,175	$ 421,632	$ (310,469)	$ 1,248,043	$ 14,249
Net income	201,474					201,053	421
Other comprehensive income/(loss):							
Translation gain	8,119				6,887		1,232
Defined benefit plan adjustment[1]	13,621				13,621		
Derivative financial instruments[1]	(2,906)				(2,906)		
Other comprehensive income	18,834				17,602		1,232
Dividends	(112,941)					(112,941)	
Issuance of stock awards	28,550	1,099		28,550			
Shares repurchased	(24,658)	(738)		(24,658)			
Stock-based compensation	15,804			15,804			
December 31, 2010	$ 1,507,693	100,510	$ 7,175	$ 441,328	$ (292,867)	$ 1,336,155	$ 15,902
Net income	218,044					217,517	527
Other comprehensive income/(loss):							
Translation loss	(39,051)				(38,962)		(89)
Defined benefit plan adjustment[1]	(127,798)				(127,798)		
Derivative financial instruments[1]	(672)				(672)		
Other comprehensive loss	(167,521)				(167,432)		(89)
Dividends	(116,237)					(116,237)	
Issuance of stock awards	26,487	1,100		26,487			
Shares repurchased	(49,442)	(1,399)		(49,442)			
Stock-based compensation	12,102			12,102			
Purchase of noncontrolling interest	(5,718)			(2,991)			(2,727)
December 31, 2011	$ 1,425,408	100,211	$ 7,175	$ 427,484	$ (460,299)	$ 1,437,435	$ 13,613
Net income	196,120					196,010	110
Other comprehensive income/(loss):							
Translation gain	25,016				24,511		505
Defined benefit plan adjustment[1]	(41,498)				(41,498)		
Derivative financial instruments[1]	1,460				1,460		
Other comprehensive loss	(15,022)				(15,527)		505
Dividends	(121,300)					(121,300)	
Issuance of stock awards	13,324	763		13,324			
Shares repurchased	(4,167)	(127)		(4,167)			
Stock-based compensation	8,851			8,851			
December 31, 2012	$ 1,503,214	100,847	$ 7,175	$ 445,492	$ (475,826)	$ 1,512,145	$ 14,228

1 net of tax

The Notes beginning on page F-6 are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Sonoco Products Company

(Dollars in thousands)

Years ended December 31	*2012*	*2011*	*2010*
Cash Flows from Operating Activities			
Net income	**$ 196,120**	$ 218,044	$ 201,474
Adjustments to reconcile net income to net cash provided by operating activities			
Asset impairment	**8,427**	12,518	9,962
Loss from early extinguishment of debt			48,617
Depreciation, depletion and amortization	**200,403**	179,871	169,665
Share-based compensation expense	**8,851**	12,102	15,804
Equity in earnings of affiliates	**(12,805)**	(12,061)	(11,505)
Cash dividends from affiliated companies	**9,329**	11,676	17,123
(Gain)/Loss on disposition of assets	**(6,690)**	1,907	1,422
Pension and postretirement plan expense	**52,856**	36,853	52,599
Pension and postretirement plan contributions	**(75,059)**	(142,097)	(29,194)
Tax effect of share-based compensation exercises	**5,698**	5,965	5,063
Excess tax benefit of share-based compensation	**(2,682)**	(4,018)	(4,209)
Net increase in deferred taxes	**18,989**	11,036	12,498
Change in assets and liabilities, net of effects from acquisitions, dispositions and foreign currency adjustments			
Trade accounts receivable	**1,190**	(52,484)	(66,410)
Inventories	**16,157**	3,423	(57,071)
Payable to suppliers	**(16,010)**	(13,798)	43,255
Prepaid expenses	**1,114**	(2,559)	(1,330)
Accrued expenses	**(4,059)**	(12,174)	19,757
Income taxes payable and other income tax items	**(5,350)**	7,344	(49,993)
Fox River environmental reserves	**(2,796)**	(1,959)	(1,687)
Other assets and liabilities	**10,232**	(14,314)	(704)
Net cash provided by operating activities	**403,915**	245,275	375,136
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	**(214,862)**	(173,372)	(145,910)
Cost of acquisitions, net of cash acquired	**(503)**	(566,908)	(137,835)
Proceeds from the sale of assets	**31,967**	11,121	8,486
Investment in affiliates and other	**26**		(8,450)
Net cash used by investing activities	**(183,372)**	(729,159)	(283,709)
Cash Flows from Financing Activities			
Proceeds from issuance of debt	**7,568**	680,919	365,415
Principal repayment of debt	**(46,820)**	(17,054)	(358,927)
Net increase (decrease) in commercial paper borrowings	**125,000**	(3,000)	30,000
Excess cash costs of early extinguishment of debt			(49,888)
Net change in overdrafts	**(1,600)**	(8,533)	(71)
Cash dividends common	**(119,771)**	(114,958)	(111,756)
Proceeds from early settlement of interest rate swap			5,939
Excess tax benefit of share-based compensation	**2,682**	4,018	4,209
Purchase of noncontrolling interest		(5,718)	
Shares acquired	**(4,167)**	(49,442)	(24,658)
Shares issued	**9,739**	21,253	23,155
Net cash (used) provided by financing activities	**(27,369)**	507,485	(116,582)
Effects of Exchange Rate Changes on Cash	**4,387**	(6,327)	(1,841)
Increase (Decrease) in Cash and Cash Equivalents	**197,561**	17,274	(26,996)
Cash and cash equivalents at beginning of year	**175,523**	158,249	185,245
Cash and cash equivalents at end of year	**$ 373,084**	$ 175,523	$ 158,249
Supplemental Cash Flow Disclosures			
Interest paid, net of amounts capitalized	**$ 66,171**	$ 34,296	$ 37,464
Income taxes paid, net of refunds	**$ 84,422**	$ 54,078	$ 96,918

The Notes beginning on page F-6 are an integral part of these financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Sonoco Products Company (dollars in thousands except per share data)

1. Summary of significant accounting policies

Basis of presentation

The Consolidated Financial Statements include the accounts of Sonoco Products Company and its majority-owned subsidiaries (the Company or Sonoco) after elimination of intercompany accounts and transactions.

Investments in affiliated companies in which the Company shares control over the financial and operating decisions, but in which the Company is not the primary beneficiary, are accounted for by the equity method of accounting. Income applicable to these equity investments is reflected in Equity in earnings of affiliates, net of tax in the Consolidated Statements of Income. The aggregate carrying value of equity investments is reported in Other Assets in the Company s Consolidated Balance Sheets and totaled $110,687 and $108,702 at December 31, 2012 and 2011, respectively.

Affiliated companies in which the Company held a significant investment at December 31, 2012, included:

Entity	*Ownership Interest Percentage at December 31, 2012*
RTS Packaging JVCO	35.0%
Cascades Conversion, Inc.	50.0%
Cascades Sonoco, Inc.	50.0%
Showa Products Company Ltd.	20.0%
Conitex Sonoco Holding BVI Ltd.	30.0%

Also included in the investment totals above is the Company s 19.5% ownership in a small Chilean tube and core business accounted for under the cost method.

Estimates and assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

The Company records revenue when title and risk of ownership pass to the customer, and when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price to the customer is fixed or determinable and when collectability is reasonably assured. Certain judgments, such as provisions for estimates of sales returns and allowances, are required in the application of the Company s revenue policy and, therefore, the results of operations in its Consolidated Financial Statements. Shipping and handling expenses are included in Cost of sales, and freight charged to customers is included in Net sales in the Company s Consolidated Statements of Income.

The Company has rebate agreements with certain customers. These rebates are recorded as reductions of sales and are accrued using sales data and rebate percentages specific to each customer agreement. Accrued customer rebates are included in Accrued expenses and other in the consolidated balance sheets.

Accounts receivable and allowance for doubtful accounts

The Company s trade accounts receivable are non-interest bearing and are recorded at the invoiced amounts. The allowance for doubtful accounts represents the Company s best estimate of the amount of probable credit losses in existing accounts receivable. Provisions are made to the allowance for doubtful accounts at such time that collection of all or part of a trade account receivable is in question. The allowance for doubtful accounts is monitored on a regular basis and adjustments are made as needed to ensure that the account properly reflects the Company s best estimate of uncollectible trade accounts receivable. Trade accounts receivable balances that are more than 180 days past due are generally 100% provided for in the allowance for doubtful accounts. Account balances are charged off against the allowance for doubtful accounts when the Company determines that the receivable will not be recovered.

Sales to one of the Company s customers accounted for approximately 9% of the Company s net sales in 2012, 9% in 2011 and 10% in 2010, primarily in the Display and Packaging and Consumer Packaging segments. Receivables from this customer accounted for approximately 8% of the Company s total trade accounts receivable at both December 31, 2012 and 2011. The Company s next largest customer comprised approximately 5% of the Company s net sales in 2012, 2011 and 2010.

Research and development

Research and development costs are charged to expense as incurred and include salaries and other directly related expenses. Research and development costs totaling approximately $20,200 in 2012, $18,800 in 2011 and $17,800 in 2010 are included in Selling, general and administrative expenses in the Company s Consolidated Statements of Income.

Restructuring and asset impairment

Costs associated with exit or disposal activities are recognized when the liability is incurred. If assets become impaired as a result of a restructuring action, the assets are written down to fair value, less estimated costs to sell, if applicable. A number of significant estimates and assumptions are involved in the determination of fair value. The Company considers historical experience and all available information at the time the estimates are made; however, the amounts that are ultimately realized upon the sale of divested assets may differ from the estimated fair values reflected in the Company s Consolidated Financial Statements.

Cash and cash equivalents

Cash equivalents are composed of highly liquid investments with an original maturity of three months or less. Cash equivalents are recorded at cost, which approximates market.

Inventories

Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used for the valuation of certain of the Company s domestic inventories, primarily metal, internally manufactured paper and paper purchased from third parties.

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The LIFO method of accounting was used to determine the costs of approximately 19% and 18% of total inventories at December 31, 2012 and 2011, respectively. The remaining inventories are determined on the first-in, first-out (FIFO) method.

If the FIFO method of accounting had been used for all inventories, total inventory would have been higher by $19,476 and $20,184 at December 31, 2012 and 2011, respectively.

Property, plant and equipment

Plant assets represent the original cost of land, buildings and equipment, less depreciation, computed under the straight-line method over the estimated useful lives of the assets, and are reviewed for impairment whenever events indicate the carrying value may not be recoverable.

Equipment lives generally range from three to 11 years, and buildings from 15 to 40 years.

Timber resources are stated at cost. Depletion is charged to operations based on the estimated number of units of timber cut during the year.

Goodwill and other intangible assets

The Company evaluates its goodwill for impairment at least annually, and more frequently if indicators of impairment are present. In performing the impairment test, the Company first makes an assessment regarding the likelihood of impairment. If it is not more likely than not that goodwill is impaired for any of its reporting units, no further testing is performed. Otherwise, the Company uses discounted future cash flows to estimate the fair value of each reporting unit it believes may have a goodwill impairment giving consideration to multiples it believes could be obtained in a sale. If the fair value of the reporting unit exceeds the carrying value of the reporting unit s assets, including goodwill, there is no impairment. If not, and the carrying value of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized for the excess. Goodwill is not amortized.

Intangible assets are amortized, usually on a straight-line basis, over their respective useful lives, which generally range from three to 40 years. The Company evaluates its intangible assets for impairment whenever indicators of impairment exist. The Company has no intangibles with indefinite lives.

Income taxes

The Company provides for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting requirements and tax laws. Assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Derivatives

The Company uses derivatives to mitigate the effect of fluctuations in some of its raw material and energy costs, foreign currency fluctuations and interest rate movements. The Company purchases commodities such as recovered paper, metal and energy generally at market or at fixed prices that are established with the vendor as part of the purchase process for quantities expected to be consumed in the ordinary course of business. The Company may enter into commodity futures or swaps to manage the effect of price fluctuations. The Company may use foreign currency forward contracts and other risk management instruments to manage exposure to changes in foreign currency cash flows and the translation of monetary assets and liabilities on the Company s consolidated financial statements. The Company is exposed to interest-rate fluctuations as a result of using debt as a source of financing for its operations. The Company may from time to time use traditional, unleveraged interest rate swaps to adjust its mix of fixed and variable rate debt to manage its exposure to interest rate movements.

The Company records its derivatives as assets or liabilities on the balance sheet at fair value using published market prices or estimated values based on current price and/or rate quotes and discounted estimated cash flows. Changes in the fair value of derivatives are recognized either in net income or in other comprehensive income, depending on the designated purpose of the derivative. It is the Company s policy not to speculate in derivative instruments.

Reportable segments

The Company identifies its reportable segments by evaluating the level of detail reviewed by the chief operating decision maker, gross profit margins, nature of products sold, nature of the production processes, type and class of customer, methods used to distribute product, and nature of the regulatory environment. Of these factors, the Company believes that the most significant are the nature of its products and the type of customers served.

Contingencies

Pursuant to U.S. GAAP for accounting for contingencies, accruals for estimated losses are recorded at the time information becomes available indicating that losses are probable and that the amounts are reasonably estimable. Amounts so accrued are not discounted.

2. New accounting pronouncements

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This update eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and provided the entity with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company selected the two statement approach and has included the additional statement in this Annual Report on Form 10-K.

In February 2013, the Financial Accounting Standards Board issued ASU no. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. This update requires an entity to present on the face of the financial statements where net income is presented, or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The requirements of this update are effective prospectively for reporting periods beginning after December 15, 2012.

During the year ended December 31, 2012, there have been no other newly issued nor newly applicable accounting pronouncements that have, or are expected to have, a significant impact on the Company s financial statements. Further, at December 31, 2012, there were no other pronouncements pending adoption that are expected to have a significant impact on the Company s financial statements.

3. Acquisitions

The Company completed five acquisitions during 2011 at an aggregate cost of $566,908 in cash. These acquisitions were accounted for as business combinations under the acquisition method of accounting, in accordance with the business combinations subtopic of the Accounting Standards Codification. The most significant of these was the November 8, 2011, acquisition of privately held Tegrant Holding Corporation (Tegrant), a leading provider of highly engineered protective, temperature-assurance and retail security packaging solutions. Tegrant, headquartered in DeKalb, Illinois, operates more than 30 manufacturing, design and testing facilities in the United States, Mexico and Ireland and employs more than 2,000 persons. Tegrant operates three strategic, complementary business units. Protexic Brands, the largest business unit, is a manufacturer of molded expanded foam serving a number of industries including high technology, consumer electronics, automotive, appliances and medical devices. Tegrant s Thermosafe® Brands unit is a leading provider of temperature-assurance solutions, primarily used in packaging temperature-sensitive pharmaceuticals and food. Tegrant s Alloyd Brands® business unit is a leading manufacturer and designer of high-visibility packaging, printed products, sealing equipment, and tooling for retail and medical markets.

The cost of the Tegrant acquisition was $550,000 in cash paid at the time of the purchase plus an additional $503 paid in February 2012 for changes in working capital levels to the date of the closing. The allocation of the purchase price of Tegrant to the tangible and intangible assets acquired and liabilities assumed was finalized during the measurement period which ended in the fourth quarter of 2012. Following is a summary of the fair values of the assets acquired and liabilities assumed at the acquisition date:

Trade accounts receivable	$ 61,969
Inventories	38,036
Prepaid expenses	1,136
Property, plant and equipment	92,748
Goodwill	269,953
Other intangible assets	187,830
Payables to suppliers	(31,154)
Accrued expenses and other	(41,506)
Total debt	(3,966)
Deferred income taxes, net	(14,695)
Other long-term liabilities	(9,848)
Total net assets	$ 550,503

Goodwill recorded in connection with the acquisition totaled $269,953. Factors comprising goodwill include efficiencies derived by the elimination of certain redundant functions and expenses due to synergies with our existing business, the ability to leverage product offerings across a broader customer base, and the value of the assembled workforce. The Company expects approximately $67,000 of the goodwill to be tax deductible. Of the $187,830 of acquired intangibles, $160,300 was assigned to customer relationships with an average expected life of 12 years, $17,600 to trade names with an expected life of 40 years, and $9,930 to proprietary technology and other intangibles with an average expected life of nine years.

Also during 2011, the Company completed the acquisitions of several small tube and core businesses in New Zealand and Australia at a total cost of $7,181 in cash, a rigid paperboard containers business in the United Kingdom at a cost of $4,698 in cash, and a recycling business in Greenville, South Carolina, at a cost of $5,029 in cash. In conjunction with these acquisitions, the Company recorded net tangible assets of $6,606, identifiable intangibles of $4,062 and goodwill of $6,240, the majority of which is expected to be tax deductible.

The Company completed four acquisitions during 2010 at an aggregate cost of $137,835 in cash. These acquisitions consisted of Associated Packaging Technologies, Inc. (APT), a supplier of thermoformed containers to the frozen food industry, Madem Reels USA, Inc., a manufacturer of nailed wood and plywood reels for the wire and cable industry, a small tube and core business in Canada, and a small tube and core business in Greece. The all-cash purchase price of APT, including the cost of paying off various obligations, was $119,968. In conjunction with this acquisition, the Company recorded net tangible assets of $72,895, identifiable intangibles of $22,100 and goodwill of $24,973 (the majority of which will be tax deductible). The all-cash purchase price for Madem Reels was $10,714, plus contingent consideration of $500, which was paid in the first quarter of 2011. In conjunction with this acquisition, the Company recorded net tangible assets of $8,263 and identifiable intangibles of $2,451. The aggregate cost of the Canadian and Greek tube and core businesses was $7,153 in cash. In conjunction with these acquisitions, the Company recorded net tangible assets of $3,026 and identifiable intangibles of $4,127.

Acquisition-related costs of $311, $12,290 and $1,909 were incurred in connection with 2012, 2011 and 2010 acquisitions, respectively. These costs, consisting primarily of legal and professional fees, are included in Selling, general and administrative expenses in the Company s Consolidated Statements of Income.

The Company has accounted for these acquisitions as purchases and, accordingly, has included their results of operations in the Company s consolidated statements of net income from the respective dates of acquisition.

4. Restructuring and asset impairment

The Company has engaged in a number of restructuring actions over the past several years. Actions initiated in 2012 and 2011 are reported as 2012 Actions and 2011 Actions, respectively. Actions initiated prior to 2011, all of which were substantially complete at December 31, 2012, are reported as 2010 and Earlier Actions.

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Following are the total restructuring and asset impairment charges, net of adjustments, recognized by the Company during the periods presented:

	Year Ended December 31		
	2012	*2011*	*2010*
Restructuring-related charges:			
2012 Actions	**$ 24,681**	$	$
2011 Actions	**8,313**	34,785	
2010 and Earlier Actions	**(136)**	2,041	11,427
Total restructuring-related charges	**$ 32,858**	$ 36,826	$ 11,427
Other asset impairments			12,572
Restructuring/Asset impairment charges	**$ 32,858**	$ 36,826	$ 23,999
Income tax benefit	**(9,836)**	(11,506)	(9,295)
Equity method investments, net of tax	**22**	17	671
Impact of noncontrolling interests, net of tax	**116**	200	138
Total impact of restructuring/asset impairment charges, net of tax	**$ 23,160**	$ 25,537	$ 15,513

Pretax restructuring and asset impairment charges are included in Restructuring/Asset impairment charges in the Consolidated Statements of Income.

The Company expects to recognize future additional costs totaling approximately $5,650 in connection with previously announced restructuring actions. The Company believes that the majority of these charges will be incurred and paid by the end of 2013. The Company continually evaluates its cost structure, including its manufacturing capacity, and additional restructuring actions may be undertaken.

2012 actions

During 2012, the Company announced the planned closures of a paper mill in Germany (part of the Paper and Industrial Converted Products segment) and a paperboard-based protective packaging operation in the United States (part of the Protective Solutions segment). In addition, the Company continued its manufacturing rationalization efforts in its blowmolding business (part of the Consumer Packaging segment), including the planned closure of a facility in Canada, and realigned its cost structure resulting in the elimination of approximately 165 positions.

Below is a summary of 2012 Actions and related expenses by type incurred and estimated to be incurred through completion.

2012 Actions	*Year Ended December 31, 2012*	*Estimated Total Cost*
Severance and Termination Benefits		
Paper and Industrial Converted Products	$ 10,329	$ 10,779
Consumer Packaging	2,571	2,721
Display and Packaging	1,301	1,301
Protective Solutions	1,595	1,595
Corporate	297	297
Asset Impairment/Disposal of Assets		
Paper and Industrial Converted Products	2,404	2,404
Consumer Packaging	2,921	2,921
Protective Solutions	161	161
Other Costs		
Paper and Industrial Converted Products	1,294	1,644
Consumer Packaging	861	1,561
Display and Packaging	11	11
Protective Solutions	936	1,036
Total Charges and Adjustments	$ 24,681	$ 26,431

The following table sets forth the activity in the 2012 Actions restructuring accrual included in Accrued expenses and other on the Company s Consolidated Balance Sheets:

2012 Actions *Accrual Activity*	*Severance and Termination Benefits*	*Asset Impairment/ Disposal of Assets*	*Other Costs*	*Total*
Liability, December 31, 2011	$	$	$	$
2012 charges	16,093	5,486	3,102	24,681
Cash receipts/(payments)	(9,735)	600	(3,015)	(12,150)
Asset write downs/disposals		(6,086)		(6,086)
Foreign currency translation	(45)		(7)	(52)
Liability, December 31, 2012	$ 6,313	$	$ 80	$ 6,393

Other Costs consist primarily of costs related to plant closures including equipment removal, utilities, plant security, property taxes and insurance. The Company expects to pay the majority of the remaining 2012 Actions restructuring costs by the end of 2013 using cash generated from operations.

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2011 actions

During 2011, the Company announced the closures in Canada of a flexible packaging facility and a thermoformed plastic packaging facility (parts of the Consumer Packaging segment), a tube and core facility in France (part of the Paper and Industrial Converted Products segment), and a fulfillment service center and a point-of-purchase display facility both in the United States (parts of the Display and Packaging segment). The Company also sold two small businesses, a plastics operation in Brazil and a tubes and cores operation in the United States, and realigned its fixed cost structure resulting in the elimination of approximately 160 positions.

Below is a summary of 2011 Actions and related expenses by type incurred and estimated to be incurred through completion.

2011 Actions	*Year Ended December 31, 2012*	*2011*	*Total Incurred to Date*	*Estimated Total Cost*
Severance and Termination Benefits				
Paper and Industrial Converted Products	$ 390	$ 9,128	$ 9,518	$ 9,718
Consumer Packaging	3,356	7,014	10,370	10,370
Display and Packaging	346	845	1,191	1,191
Protective Solutions	280	1,109	1,389	1,389
Asset Impairment/Disposal of Assets				
Paper and Industrial Converted Products	126	161	287	287
Consumer Packaging	(3,586)	10,212	6,626	6,626
Display and Packaging	(791)	3,486	2,695	2,695
Protective Solutions		65	65	65
Other Costs				
Paper and Industrial Converted Products	2,575	347	2,922	4,072
Consumer Packaging	4,030	1,405	5,435	7,285
Display and Packaging	827	433	1,260	1,260
Protective Solutions	760	580	1,340	1,540
Total Charges and Adjustments	$ 8,313	$ 34,785	$ 43,098	$ 46,498

The following table sets forth the activity in the 2011 Actions restructuring accrual included in Accrued expenses and other on the Company s Consolidated Balance Sheets:

2011 Actions Accrual Activity	*Severance and Termination Benefits*	*Asset Impairment/ Disposal of Assets*	*Other Costs*	*Total*
Liability, December 31, 2010	$	$	$	$
2011 charges	18,096	13,924	2,765	34,785
Cash receipts/(payments)	(7,352)	5,627	(2,685)	(4,410)
Asset write downs/disposals		(19,551)		(19,551)
Foreign currency translation	(424)			(424)
Liability, December 31, 2011	$ 10,320	$	$ 80	$ 10,400
2012 charges	4,448	1,157	8,192	13,797
Adjustments	(76)	(5,408)		(5,484)
Cash receipts/(payments)	(12,708)	15,010	(8,256)	(5,954)
Asset write downs/disposals		(10,759)		(10,759)
Foreign currency translation	54			54
Liability, December 31, 2012	$ 2,038	$	$ 16	$ 2,054

During 2012, the Company completed the sale of the land and building associated with a former flexible packaging facility in Canada and a former fulfillment service center in the United States. The majority of the 2012 activity in Asset Impairment/Disposal of Assets in the table above relates to these sales.

Included in 2011 charges above is a loss of $6,689 from the sale of a plastics business in Brazil for which the Company received net proceeds of $3,849. Annual sales of this business were approximately $27,000. Partially offsetting the loss was a gain of $1,053 from the sale of a small tubes and cores business in the United

States for which the Company received net proceeds of $1,150. Additional impairment charges totaling $8,288 were recorded in 2011 related primarily to the difference between fair market value and net book value of a fulfillment service center building held for sale and the write down of thermoformed plastic manufacturing equipment not redeployed upon the closure of a manufacturing facility in Canada. Other impairment charges stemmed from the announced closure of a flexible packaging facility in Canada and the subsequent decision not to use certain machinery and equipment acquired in the 2010 acquisition of a tube and core business in Greece.

Other Costs consist primarily of lease termination costs and costs related to plant closures including the cost of equipment removal, utilities, plant security, property taxes and insurance. The Company expects to pay the majority of the remaining 2011 Actions restructuring costs by the end of 2013 using cash generated from operations.

2010 and earlier actions

2010 and Earlier Actions are comprised of a number of plant closures and workforce reductions initiated prior to 2011.

Below is a summary of 2010 and Earlier Actions and related expenses by type incurred.

	Year Ended December 31,		
2010 and Earlier Actions	*2012*	*2011*	*2010*
Severance and Termination Benefits			
Paper and Industrial Converted Products	**$ (59)**	$ 545	$ 4,329
Consumer Packaging	**(8)**	130	1,083
Display and Packaging		(3)	1,593
Protective Solutions			60
Corporate		11	312
Asset Impairment/Disposal of Assets			
Paper and Industrial Converted Products	**(1,861)**	(968)	(3,009)
Consumer Packaging		(10)	535
Display and Packaging		(429)	(136)
Other Costs			
Paper and Industrial Converted Products	**1,741**	2,057	5,024
Consumer Packaging	**51**	464	1,123
Display and Packaging		244	513
Total Charges and Adjustments	**$ (136)**	$ 2,041	$ 11,427

The following table sets forth the activity in the 2010 and Earlier Actions restructuring accrual included in Accrued expenses and other on the Company s Consolidated Balance Sheets:

2010 and Earlier Actions Accrual Activity	*Severance and Termination Benefits*	*Asset Impairment/ Disposal of Assets*	*Other Costs*	*Total*
Liability, December 31, 2010	$ 6,248	$	$ 770	$ 7,018
2011 charges	674	254	3,529	4,457
Adjustments	8	(1,661)	(763)	(2,416)
Cash receipts/(payments)	(3,121)	5,872	(3,321)	(570)
Asset write downs/disposals		(4,465)		(4,465)
Foreign currency translation	3		12	15
Liability, December 31, 2011	$ 3,812	$	$ 227	$ 4,039
2012 charges	45	(661)	1,792	1,176
Adjustments	(112)	(1,200)		(1,312)
Cash receipts/(payments)	(648)	6,309	(1,945)	3,716
Asset write downs/disposals		(4,448)		(4,448)
Foreign currency translation	4			4
Liability, December 31, 2012	$ 3,101	$	$ 74	$ 3,175

Adjustments consists primarily of a gain in 2012 on the sale of the land and buildings associated with a previously closed paper mill in Canada and 2011 gains from the sales of both the land and buildings at a former tube and core facility in Canada and machinery and equipment at a point-of-purchase display facility in the United States. Other Costs consist primarily of lease termination costs and costs related to plant closures including the cost of equipment removal, utilities, plant security, property taxes and insurance. The Company expects to recognize future pretax charges of approximately $500 associated with 2010 and Earlier Actions.

The accrual for 2010 and Earlier Actions relates primarily to a pension withdrawal liability associated with a former paper mill in the United States and building lease terminations. The Company expects to pay the majority of the remaining 2010 and Earlier Actions restructuring costs by the end of 2013 using cash generated from operations.

Other asset impairments

In addition to the restructuring charges discussed above, the Company recorded a pretax asset impairment charge of $12,572 in 2010 as a result of notification from a large customer that the Company s contract to provide certain packaging would not be renewed in its entirety. The expected loss of business caused the Company to conclude that certain affected assets in its Consumer Packaging segment had been impaired.

5. Cash and cash equivalents

At December 31, 2012 and 2011, outstanding checks totaling $11,790 and $12,989, respectively, were included in Payable to suppliers on the Company s Consolidated Balance Sheets. In addition, outstanding payroll checks of $446 and $848 as of December 31, 2012 and 2011, respectively, were included in Accrued wages and other compensation on the Company s Consolidated Balance Sheets.

The Company uses a notional pooling arrangement with an international bank to help manage global liquidity requirements. Under this pooling arrangement, the Company and its participating subsidiaries may maintain either cash deposit or borrowing positions through local currency accounts with the bank, so long as the aggregate position of the global pool is a notionally calculated net cash deposit. Because it maintains a security interest in the cash deposits, and has the right to offset the cash deposits against the borrowings, the bank provides the Company and its participating subsidiaries favorable interest terms on both. The Company s Consolidated Balance Sheets reflect a net cash deposit under this pooling arrangement of $11,060 and $3,569 as of December 31, 2012 and 2011, respectively.

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6. Property, plant and equipment

Details of the Company s property, plant and equipment at December 31 are as follows:

	2012	2011
Land	**$ 78,520**	$ 75,798
Timber resources	**39,787**	39,806
Buildings	**467,888**	453,106
Machinery and equipment	**2,567,403**	2,495,276
Construction in progress	**142,689**	102,708
	3,296,287	3,166,694
Accumulated depreciation and depletion	**(2,261,381)**	(2,153,072)
Property, plant and equipment, net	**$ 1,034,906**	$ 1,013,622

Estimated costs for completion of capital additions under construction totaled approximately $125,000 at December 31, 2012.

Depreciation and depletion expense amounted to $171,905 in 2012, $163,198 in 2011 and $156,529 in 2010.

The Company has certain properties and equipment that are leased under noncancelable operating leases. Future minimum rentals under noncancelable operating leases with terms of more than one year are as follows: 2013 $42,000; 2014 $22,800; 2015 $19,600; 2016 $13,700; 2017 $9,100 and thereafter $27,700. Total rental expense under operating leases was approximately $68,200 in 2012, $58,200 in 2011 and $49,500 in 2010.

7. Goodwill and other intangible assets

Goodwill

The changes in the carrying amount of goodwill by segment for the year ended December 31, 2012, are as follows:

	Consumer Packaging	Paper and Industrial Converted Products	Display and Packaging	Protective Solutions	Total
Balance as of January 1, 2012	$ 424,062	$ 252,476	$ 158,023	$ 270,215	$ 1,104,776
Foreign currency translation	3,513	2,230		(14)	5,729
Balance as of December 31, 2012	$ 427,575	$ 254,706	$ 158,023	$ 270,201	$ 1,110,505

The Company assesses its goodwill for impairment annually and from time to time when warranted by the facts and circumstances surrounding individual reporting units or the Company as a whole. The Company completed its most recent annual goodwill impairment testing during the third quarter of 2012. When assessing goodwill, the Company considers certain qualitative and quantitative factors. Qualitative factors include the macroeconomic environment, Company stock price and market capitalization movement, business strategy changes, and significant customer wins and losses. Quantitative factors include the amount by which the estimated fair value exceeded its current carrying value, current year operating performance as compared to prior projections, and implied fair values from comparable trading and transaction multiples. Based on the results of its qualitative and quantitative assessments performed during the year, the Company has concluded that there has been no impairment of goodwill for any of its reporting units.

When the Company estimates the fair value of a reporting unit, it does so using a discounted cash flow model based on projections of future years operating results and associated cash flows, together with comparable trading and transaction multiples. The Company s model discounts future cash flows, forecasted over a ten-year period, with an estimated residual growth rate. The Company s projections incorporate management s best estimates of the expected future results, which include expectations related to new business, and, where applicable, improved operating margins. Future cash flows are discounted to present value using a discount rate commensurate with the risks inherent in the cash flows.

The Company s assessments, whether qualitative or quantitative, incorporate management s expectations for the future, including forecasted growth rates and/or margin improvements. Therefore, should there be changes in the relevant facts and circumstances and/or expectations, management s assessment regarding goodwill impairment may change as well.

Although no reporting units failed the qualitative or quantitative assessments noted above, in management s opinion, the reporting units with significant goodwill having the greatest risk of future impairment if actual results in the future are not as expected are Plastics Blowmolding, Rigid Paper Europe and Plastics Thermoforming. Total goodwill associated with these reporting units was approximately $130,400, $10,000 and $53,200, respectively, at December 31,

2012. Although goodwill of the Display and Packaging reporting unit is not currently at risk for impairment, a large portion of sales in this unit is concentrated in one customer and will be up for negotiation over the next few years. Management expects to retain this business; however, if a significant amount is lost and not replaced, it is possible that a goodwill impairment charge may be incurred. Total goodwill associated with this reporting unit was approximately $158,000 at December 31, 2012.

There have been no triggering events subsequent to the completion of the annual goodwill impairment testing in the third quarter of 2012.

Other intangible assets

Details at December 31 are as follows:

	2012	2011
Other Intangible Assets, Gross:		
Patents	**$ 2,224**	$ 2,222
Customer lists	**345,133**	343,564
Trade names	**21,214**	21,175
Proprietary technology	**17,844**	17,818
Land use rights	**350**	360
Other	**4,944**	4,925
Other Intangible Assets, Gross	**$ 391,709**	$ 390,064
Accumulated Amortization	**$ (114,900)**	$ (85,464)
Other Intangible Assets, Net	**$ 276,809**	$ 304,600

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Aggregate amortization expense on intangible assets was $28,498, $16,673 and $13,136 for the years ended December 31, 2012, 2011 and 2010, respectively. Amortization expense on intangible assets is expected to approximate $28,300 in 2013, $27,800 in 2014, $26,300 in 2015, $26,000 in 2016 and $25,600 in 2017.

8. Debt

Debt at December 31 was as follows:

	2012	2011
Commercial paper, average rate of 0.37% in 2012 and 0.36% in 2011	**$ 152,000**	$ 27,000
Term loan, due November 2014	**135,000**	150,000
6.5% debentures due November 2013	**118,358**	119,149
5.625% debentures due November 2016	**75,129**	75,093
9.2% debentures due August 2021	**4,321**	4,321
4.375% debentures due November 2021	**248,991**	248,877
5.75% debentures due November 2040	**604,688**	604,856
Foreign denominated debt, average rate of 5.5% in 2012 and 5.3% in 2011	**20,358**	43,240
Other notes	**14,217**	14,096
Total debt	**1,373,062**	1,286,632
Less current portion and short-term notes	**273,608**	53,666
Long-term debt	**$ 1,099,454**	$ 1,232,966

The Company currently operates a $350,000 commercial paper program, supported by a committed bank credit facility of the same amount. In October 2012, the Company entered into an amended and restated credit agreement for that facility with a syndicate of eight banks. The bank credit facility is committed through October 2017. If circumstances were to prevent the Company from issuing commercial paper, it has the contractual right to draw funds directly on the underlying bank credit facility. Outstanding commercial paper totaled $152,000 and $27,000 at December 31, 2012 and 2011, respectively.

Under Internal Revenue Service rules, U.S. corporations may borrow funds from foreign subsidiaries for up to 30 days without unfavorable tax consequences. At various times throughout 2012 and 2011, including December 31, 2011, the Company utilized this rule to access offshore cash in lieu of issuing commercial paper. Amounts outstanding under the rule at December 31, 2011 totaled $145,000. The Company did not access any offshore cash under this rule at December 31, 2012. These short-term lending arrangements were subsequently settled within the allowable period, resulting in equivalent increases in commercial paper outstanding and cash on hand. Depending on its immediate offshore cash needs, the Company may choose to access such funds again in the future as allowed under the rule.

In the fourth quarter of 2011, the Company issued through public offering a total of $500,000 of debentures pursuant to an effective shelf registration statement. The issuance comprised $250,000 of 4.375% debentures due 2021 and $250,000 of 5.75% debentures due 2040. The new 2040 debentures constituted a further issuance of the 5.75% notes due 2040, which were issued in November 2010. Also in the fourth quarter of 2011, the Company entered into a $150,000 term loan agreement with a three-year maturity. Proceeds from the new debentures and the term loan were used to fund the Company s November 2011 acquisition of Tegrant.

In January 2013, the Company repatriated a total of $233,000 of accumulated offshore cash, using $135,000 to pay off the balance of the term loan. The remainder of the repatriated cash was utilized to pay down commercial paper.

Proceeds from the issuance of $350,000 of 5.75% debentures in November 2010 were used largely to purchase the tenders of a portion of the Company s outstanding 6.5%, 5.625% and 9.2% debentures. In conjunction with these purchases, the Company recognized a pretax loss from the early extinguishment of debt in 2010 totaling $48,617 pretax.

At December 31, 2012, the Company had approximately $124,000 available under unused short-term lines of credit. These short-term lines of credit are for general Company purposes, with interest at mutually agreed-upon rates.

Certain of the Company s debt agreements impose restrictions with respect to the maintenance of financial ratios and the disposition of assets. The most restrictive covenant currently requires the Company to maintain a minimum level of interest coverage, and a minimum level of net worth, as defined. As of December 31, 2012, the Company had substantial tolerance above the minimum levels required under these covenants.

The principal requirements of debt maturing in the next five years are: 2013 $273,608; 2014 $1,777; 2015 $1,752; 2016 $76,831 and 2017 $153,702.

9. Financial instruments and derivatives

The following table sets forth the carrying amounts and fair values of the Company s significant financial instruments where the carrying amount differs from the fair value.

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 1,099,454	$ 1,214,292	$ 1,232,966	$ 1,282,727

The carrying value of cash and cash equivalents, short-term debt and long-term variable-rate debt approximates fair value. The fair value of long-term debt is based on trade information in the financial markets of the Company s public debt or is determined by discounting future cash flows using interest rates available to the Company for issues with similar terms and average maturities. It is considered a Level 2 fair value measurement.

Cash flow hedges

At December 31, 2012 and 2011, the Company had derivative financial instruments outstanding to hedge antici-

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pated transactions and certain asset and liability related cash flows. To the extent considered effective, the changes in fair value of these contracts are recorded in other comprehensive income and reclassified to income or expense in the period in which the hedged item impacts earnings.

Commodity cash flow hedges

The Company has entered into certain derivative contracts to manage the cost of anticipated purchases of natural gas, aluminum and old corrugated containers (OCC). At December 31, 2012, natural gas swaps covering approximately 7.3 million MMBTUs were outstanding. These contracts represent approximately 77% and 38% of anticipated U.S. and Canadian usage for 2013 and 2014, respectively. Additionally, the Company had swap contracts covering 4,161 metric tons of aluminum representing approximately 41% of anticipated usage for 2013, and 14,625 short tons of OCC representing approximately 2% of anticipated usage for 2013. The fair values of the Company s commodity cash flow hedges were in loss positions totaling $(6,286) and $(13,989) at December 31, 2012 and 2011, respectively. The amount of the loss included in accumulated other comprehensive loss at December 31, 2012, expected to be reclassified to the income statement during the next twelve months is $(4,546).

Foreign currency cash flow hedges

The Company has entered into forward contracts to hedge certain anticipated foreign currency denominated sales and purchases forecasted to occur in 2013. The net positions of these contracts at December 31, 2012, were as follows:

Currency	*Action*	*Quantity*
Colombian peso	Purchase	19,272,255
Mexican peso	Purchase	324,001
Euro	Purchase	197,264
Canadian dollar	Purchase	50,123
Turkish lira	Purchase	4,785
British pound	Purchase	2,652
Polish zloty	Purchase	2,024
New Zealand dollar	Sell	(1,122)
Australian dollar	Sell	(3,794)

The fair values of the Company s foreign currency cash flow hedges were $(4,483) and $608 at December 31, 2012 and 2011, respectively. During 2012, certain foreign currency cash flow hedges related to construction in progress were settled as the capital expenditures were made. Gains totaling $26 and $498 were reclassified from accumulated other comprehensive loss and netted against the carrying value of the capitalized expenditures during the years ended December 31, 2012 and 2011, respectively. The amount of the loss included in accumulated other comprehensive loss at December 31, 2012, expected to be reclassified to the income statement during the next twelve months is $(4,630).

Other derivatives

The Company routinely enters into forward contracts or swaps to economically hedge the currency exposure of intercompany debt and existing foreign currency denominated receivables and payables. The Company does not apply hedge accounting treatment under ASC 815 for these instruments. As such, changes in fair value are recorded directly to income and expense in the periods that they occur. The net positions of these contracts at December 31, 2012, were as follows:

Currency	*Action*	*Quantity*
British pound	Purchase	3,628
Canadian dollar	Purchase	1,544
Euro	Sell	(8,885)
Colombian peso	Sell	(15,520,438)

The fair value of the Company s other derivatives was $708 and $(746) at December 31, 2012 and 2011, respectively.

The Company has determined all derivatives for which it has applied hedge accounting under ASC 815 to be highly effective and as a result no material ineffectiveness has been recorded during the periods presented.

The following table sets forth the location and fair values of the Company s derivative instruments:

Description	*Balance Sheet Location*	*Fair Value at December 31* 2012	2011
Derivatives designated as hedging instruments:			
Commodity Contracts	Prepaid expenses	$ 201	$
Commodity Contracts	Accrued expenses and other	$ (4,760)	$ (10,234)
Commodity Contracts	Other liabilities	$ (1,727)	$ (3,755)
Foreign Exchange Contracts	Prepaid expenses	$ 725	$ 1,097
Foreign Exchange Contracts	Accrued expenses and other	$ (5,208)	$ (489)
Derivatives not designated as hedging instruments:			
Foreign Exchange Contracts	Prepaid expenses	$ 679	$ 2
Foreign Exchange Contracts	Other Assets	$ 36	$
Foreign Exchange Contracts	Accrued expenses and other	$ (7)	$ (748)

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The following table sets forth the effect of the Company s derivative instruments on financial performance for the twelve months ended December 31, 2012, excluding the losses on foreign currency cash flow hedges that were reclassified from accumulated other comprehensive loss to the carrying value of the capitalized expenditures:

Description	*Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)*	*Location of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)*	*Amount of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)*	*Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)*	*Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)*
Derivatives in Cash Flow Hedging Relationships:					
Foreign Exchange Contracts	$ (1,421)	Net sales	$ 1,359	Net sales	$
		Cost of sales	$ 2,340	Cost of sales	$
Commodity Contracts	$ (3,961)	Cost of sales	$ (11,494)	Cost of sales	$ (19)

	Location of Gain or (Loss) Recognized in Income Statement	*Gain or (Loss) Recognized*
Derivatives not designated as hedging instruments:		
Foreign Exchange Contracts	Cost of sales	$ 18
	Selling, general and administrative	$ 690

The following table sets forth the effect of the Company s derivative instruments on financial performance for the twelve months ended December 31, 2011, excluding the gains on foreign currency cash flow hedges that were reclassified from accumulated other comprehensive loss to the carrying value of the capitalized expenditures:

Description	*Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)*	*Location of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)*	*Amount of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)*	*Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)*	*Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)*
Derivatives in Cash Flow Hedging Relationships:					
Foreign Exchange Contracts	$ 803	Net sales	$ 1,759	Net sales	$
		Cost of sales	$ (1,929)	Cost of sales	$ (82)
Commodity Contracts	$ (11,761)	Cost of sales	$ (9,996)	Cost of sales	$ (57)

	Location of Gain or (Loss) Recognized in Income Statement	*Gain or (Loss) Recognized*

Derivatives not designated as hedging instruments:			
Foreign Exchange Contracts	Cost of sales	$	(23)
	Selling, general and administrative	$	(723)

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10. Fair value measurements

Fair value is defined as exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

Level 1 Observable inputs such as quoted market prices in active markets;

Level 2 Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following tables set forth information regarding the Company s financial assets and financial liabilities that are measured at fair value on a recurring basis:

Description	*December 31, 2012*	*Level 1*	*Level 2*	*Level 3*
Hedge derivatives, net				
Commodity contracts	$ (6,286)	$	$ (6,286)	$
Foreign exchange contracts	(4,483)		(4,483)	
Non-hedge derivatives, net				
Foreign exchange contracts	708		708	
Deferred compensation plan assets	2,585	2,585		
Postretirement benefit plan assets:				
Mutual funds [a]	871,988	62,274	809,714	
Fixed income securities [b]	226,828		226,828	
Common stocks	61,756	61,756		
Short-term investments [c]	8,857	3,834	5,023	
Hedge fund of funds [d]	71,685		71,685	
Real estate funds [e]	45,892		45,892	
Cash and accrued income	2,048	2,048		
Forward contracts	(485)		(485)	
Total postretirement benefit plan assets	$ 1,288,569	$ 129,912	$ 1,158,657	$

Description	*December 31, 2011*	*Level 1*	*Level 2*	*Level 3*
Hedge derivatives, net				
Commodity contracts	$ (13,989)	$	$ (13,989)	$
Foreign exchange contracts	608		608	
Non-hedge derivatives, net				
Foreign exchange contracts	(746)		(746)	
Deferred compensation plan assets	2,279	2,279		
Postretirement benefit plan assets:				
Mutual funds [a]	722,811	53,987	668,824	
Fixed income securities [b]	197,233		197,233	
Common stocks	81,519	81,519		
Short-term investments [c]	31,804	13,275	18,529	
Hedge fund of funds [d]	67,779		67,779	
Real estate funds [e]	45,682		45,682	
Cash and accrued income	2,582	2,582		
Forward contracts	348		348	
Total postretirement benefit plan assets	$ 1,149,758	$ 151,363	$ 998,395	$

(a) Mutual fund investments are comprised predominantly of equity securities of U.S. corporations with large capitalizations and also include funds invested in corporate equities in international and emerging markets.

(b) Fixed income securities include funds that invest primarily in U.S. Treasuries and long-term domestic bonds.

(c) This category includes several money market funds used for managing overall liquidity.

(d) This category includes investments in a number of funds representing a variety of strategies intended to diversify risks and reduce volatility. It includes event-driven credit and equity investments targeted at economic policy decisions, long and short positions in U.S. and international equities, arbitrage investments and emerging market equity investments.

(e) This category includes investments in real estate funds (including office, industrial, residential and retail) primarily throughout the United States.

The Company s pension plan assets comprise more than 98% of its total postretirement benefit plan assets. The assets of the Company s various pension plans and retiree health and life insurance plans are largely invested in the same funds and investments and in similar proportions and, as such, are not shown separately, but are combined in the tables above. Postretirement benefit plan assets are netted against postretirement benefit obligations to determine the funded status of each plan. The funded status is recognized in the Company s Consolidated Balance Sheets as shown in Note 12.

As discussed in Note 9, the Company uses derivatives to mitigate the effect of raw material and energy cost fluctuations, foreign currency fluctuations and interest rate movements. Fair value measurements for the Company s derivatives are classified under Level 2 because such measurements are determined using published market prices or estimated based on observable inputs such as interest rates, yield curves, spot and future commodity prices and spot and future exchange rates.

Certain deferred compensation plan liabilities are funded and the assets invested in various exchange traded mutual funds. These assets are measured using quoted prices in accessible active markets for identical assets.

The Company does not currently have any nonfinancial assets or liabilities that are recognized or disclosed at fair value on a recurring basis.

11. Share-based compensation plans

The Company provides share-based compensation to certain employees and non-employee directors in the form of stock options, stock appreciation rights, restricted stock units and other share-based awards. Awards issued prior to 2009 were issued pursuant to the 1991 Key Employee Stock Plan (the 1991 Plan) or the 1996 Non-Employee Directors Stock Plan (the 1996 Plan). Awards issued after 2008 and prior to 2012 were issued pursuant to the Sonoco Products Company 2008 Long-Term Incentive Plan (the 2008 Plan). Awards issued after 2012 were issued pursuant to the Sonoco Products Company 2012 Long-Term Incentive Plan (the 2012 Plan) , which became effective upon approval by the shareholders on April 18, 2012. The maximum number of shares of common stock that may be issued under the 2012 Plan was set at 10,500,000 shares, subject to certain adjustments, which includes all awards that were granted, forfeited or expired during 2012 under all previous plans. At December 31, 2012, a total of 7,926,290 shares remain available for future grant under the 2012 Plan. After the effective date of the 2012 Plan, no awards may be granted under any previous plan. The Company issues new shares for stock option and stock appreciation right exercises and stock unit conversions. Although the Company from time to time has repurchased shares to replace its authorized shares issued under its stock compensation plans, there is no specific schedule or policy to do so. The Company s stock-based awards to non-employee directors have not been material.

Accounting for share-based compensation

For stock appreciation rights granted to retiree-eligible employees, the service completion date is assumed to be the grant date; therefore, expense associated with share-based compensation to these employees is recognized at that time.

Total compensation cost for share-based payment arrangements was $8,851, $12,102 and $15,804, for 2012, 2011 and 2010, respectively. The related tax benefit recognized in net income was $3,113, $4,421, and $5,936, for the same years, respectively. Share-based compensation expense is included in Selling, general and administrative expenses in the Consolidated Statements of Income.

An excess tax benefit is created when the tax deduction for an exercised stock option, exercised stock appreciation right or converted stock unit exceeds the compensation cost that has been recognized in income. The excess tax benefit is not recognized on the income statement, but rather on the balance sheet as Capital in excess of stated value. The additional net excess tax benefit realized was $2,682, $4,018 and $4,209 for 2012, 2011 and 2010, respectively.

Stock appreciation rights (SARs) and stock options

The Company typically grants stock appreciation rights annually on a discretionary basis to key employees. In 2006, the Company began to grant stock appreciation rights (SARs) instead of stock options. SARs are granted at market, vest over one year, have seven-year terms and can be settled only in stock. Prior to 2006, stock options were granted at market (had an exercise price equal to the closing market price on the date of grant), had 10-year terms and vested over one year, except for the options granted in 2005, which vested immediately. Both stock options and SARs are exercisable upon vesting. On February 8, 2012, the Company granted to employees a total of 734,310 stock-settled SARs. All SARs were granted at the closing market price on the date of grant. As of December 31, 2012, unrecognized compensation cost related to nonvested SARs totaled $242. This cost will be recognized over the remaining weighted-average vesting period of approximately two months.

The weighted-average fair value of SARs granted was $6.57, $8.42 and $6.30 per share in 2012, 2011 and 2010, respectively. The Company computed the estimated fair values of all SARs using the Black-Scholes option-pricing model applying the assumptions set forth in the following table:

	2012	*2011*	*2010*
Expected dividend yield	3.5%	3.1%	3.8%
Expected stock price volatility	32.3%	33.8%	33.3%
Risk-free interest rate	2.1%	2.1%	2.4%

Expected life of SARs	4 years	4 years	4 years

The assumptions employed in the calculation of the fair value of SARs were determined as follows:

- Expected dividend yield the Company s annual dividend divided by the stock price at the time of grant.
- Expected stock price volatility based on historical volatility of the Company s common stock measured weekly for a time period equal to the expected life.
- Risk-free interest rate based on U.S. Treasury yields in effect at the time of grant for maturities equal to the expected life.
- Expected life calculated using the simplified method as prescribed in U.S. GAAP, where the expected life is

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equal to the sum of the vesting period and the contractual term divided by two.

The following tables summarize information about stock options and SARs outstanding and exercisable at December 31, 2012. At December 31, 2012, the fair market value of the Company s stock used to calculate intrinsic value was $29.73 per share.

	Options and SARs Vested and Expected to Vest			
Range of Exercise Prices	*Number Outstanding*	*Weighted-average Remaining Contractual Life*	*Weighted-average Exercise Price*	*Aggregate Intrinsic Value*
$21.15 - $28.46	1,483,520	2.2 years	$24.76	$ 7,373
$28.48 - $32.94	1,861,060	4.3 years	$30.42	$ 986
$33.14 - $43.83	1,706,160	2.2 years	$35.96	$
$21.15 - $43.83	5,050,740	3.0 years	$30.63	$ 8,359

	Options and SARs Exercisable			
Range of Exercise Prices	*Number Exercisable*	*Weighted-average Remaining Contractual Life*	*Weighted-average Exercise Price*	*Aggregate Intrinsic Value*
$21.15 - $28.46	1,483,520	2.2 years	$24.76	$ 7,373
$28.48 - $32.94	1,134,550	3.2 years	$28.87	$ 986
$33.14 - $43.83	1,706,160	2.2 years	$35.96	$
$21.15 - $43.83	4,324,230	2.5 years	$30.26	$ 8,359

The activity related to the Company s stock options and SARs is as follows:

	Nonvested	*Vested*	*Total*	*Weighted-average Exercise Price*
Outstanding, December 31, 2011	604,550	4,304,905	4,909,455	$ 29.58
Vested	(604,550)	604,550		
Granted	734,310		734,310	$ 32.85
Exercised		(531,921)	(531,921)	$ 23.69
Forfeited/Expired	(7,800)	(53,304)	(61,104)	$ 33.78
Outstanding, December 31, 2012	726,510	4,324,230	5,050,740	$ 30.63

The aggregate intrinsic value of options and SARs exercised during the years ended December 31, 2012, 2011 and 2010 was $4,193, $10,123 and $11,270, respectively. Cash received by the Company on option exercises was $9,739, $21,253 and $23,155 for the same years, respectively.

Performance-based stock awards

The Company typically grants performance contingent restricted stock units (PCSUs) annually on a discretionary basis to certain of its executives and other members of its management team. Both the ultimate number of PCSUs awarded and the vesting period are dependent upon the degree to which performance targets are achieved over three-year performance periods. Half of the units available to be earned are tied to an earnings target and half are tied to a return on assets target. If the respective performance target is met, units awarded vest at the end of the three-year performance period. In the event performance targets are not met, a minimum number of units are awarded and vest 50% at the end of four years and 50% at the end of five years. Upon vesting, PCSUs are convertible into common shares on a one-for-one basis.

For the awards granted in 2012 and 2011, the total PCSUs that could ultimately vest ranges from 284,281 to 852,841. The 2012 awards can range from 160,868 to 482,603 units and are tied to the three-year period ending December 31, 2014. The 2011 awards can range from 123,413 to 370,238 units and are tied to the three-year period ending December 31, 2013.

The three-year performance cycle for the 2010 awards was completed on December 31, 2012. Based on performance, 184,295 stock units were awarded, all of which qualified for vesting on December 31, 2012. The intrinsic value of the awards vesting in 2012 was $4,701.

The three-year performance cycle for the 2008 awards was completed on December 31, 2010. Based on performance, 95,698 stock units were awarded, the minimum provided for under the award. A total of 56,039 stock units qualified for vesting and vested on December 31, 2010. An additional 20,725 stock units vested on December 31, 2011, with the remaining 18,934 units vesting on December 31, 2012. The intrinsic value of the awards vesting in 2012 was $470.

Noncash stock-based compensation associated with PCSUs totaled $2,164, $5,354 and $9,660 for 2012, 2011 and 2010, respectively. As of December 31, 2012, there was approximately $7,197 of total unrecognized compensation cost related to nonvested PCSUs. This cost is expected to be recognized over a weighted-average period of 28 months.

Restricted stock awards

Since 1994, the Company has from time to time granted awards of restricted stock units to certain of the Company s executives. These awards normally vest over a five-year period with one-third vesting on each of the third, fourth and fifth anniversaries of the grant. An executive must be actively employed by the Company on the vesting date for shares to be issued. However, in the event of the executive s death, disability or retirement prior to full vesting, shares will be issued on a pro rata basis up through the time the executive s employment ceases. Participants can elect to defer receipt. Once vested, these awards do not expire. As of December 31, 2012, a total of 431,534 restricted stock units remained outstanding, 346,043 of which were vested. During 2012, 35,796 restricted stock units vested and 20,001 restricted stock units were granted. Noncash stock-based compensation associated with restricted stock grants totaled $869, $365 and $680 for 2012, 2011 and 2010, respectively. As of December 31, 2012, there was $864 of total unrecognized compensation cost related to nonvested restricted stock units. This cost is expected to be recognized over a weighted-average period of 14 months.

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The activity related to the PCSUs and restricted stock units is as follows:

	Nonvested	Vested	Total	Average Grant Date Fair Value Per Share
Outstanding, December 31, 2011	587,737	1,236,998	1,824,735	$ 27.37
Granted	294,143		294,143	$ 29.92
Performance adjustments	(154,958)	1,229	(153,729)	$ 24.67
Vested	(239,025)	239,025		
Converted		(335,404)	(335,404)	$ 23.87
Dividend equivalents	4,217	37,055	41,272	$ 31.43
Outstanding, December 31, 2012	492,114	1,178,903	1,671,017	$ 27.83

Deferred compensation plans

Certain officers and directors of the Company may elect to defer a portion of their compensation in the form of stock units. Units are granted as of the day the cash compensation would have otherwise been paid using the closing price of the Company s common stock on that day. The units immediately vest and earn dividend equivalents. Units are distributed in the form of common stock upon retirement over a period elected by the employee or director. Cash compensation totaling $1,063 was deferred as stock units during 2012, resulting in 33,511 units being granted.

Since 2006, non-employee directors have been required to defer a minimum of 50% of their quarterly retainer fees into stock units. Units are granted as of the day the cash compensation would have otherwise been paid using the closing price of the Company s common stock on that day. The units immediately vest and earn dividend equivalents. Distributions begin after retirement from the board over a period elected by the director.

12. Employee benefit plans

Retirement plans and retiree health and life insurance plans

The Company provides non-contributory defined benefit pension plans for a majority of its employees in the United States, and certain of its employees in Mexico and Belgium. Effective December 31, 2003, the Company froze participation for newly hired salaried and non-union hourly U.S. employees in its traditional defined benefit pension plan. At that time, the Company adopted a defined contribution plan, the Sonoco Investment and Retirement Plan (SIRP), which covers its non-union U.S. employees hired on or after January 1, 2004. The Company also sponsors contributory defined benefit pension plans covering the majority of its employees in the United Kingdom, Canada and the Netherlands.

On February 4, 2009, the U.S. qualified defined benefit pension plan was amended to freeze plan benefits for all active participants effective December 31, 2018. Remaining active participants in the U.S. qualified plan will become participants of the SIRP effective January 1, 2019. Active participants of the U.S. qualified plan had a one-time option to transfer into the SIRP effective January 1, 2010. Approximately one third of the active participants chose that option.

The Company also provides postretirement healthcare and life insurance benefits to a limited number of its retirees and their dependents in the United States and Canada, based on certain age and/or service eligibility requirements.

The components of net periodic benefit cost include the following:

	2012	2011	2010
Retirement Plans			
Service cost	**$ 23,551**	$ 20,796	$ 19,647
Interest cost	**69,928**	70,869	71,678
Expected return on plan assets	**(83,758)**	(84,015)	(77,882)
Amortization of net transition obligation	**483**	464	445
Amortization of prior service cost	**409**	335	139
Amortization of net actuarial loss	**37,904**	24,911	35,736
Effect of settlement loss	**70**		
Other		92	212
Net periodic benefit cost	**$ 48,587**	$ 33,452	$ 49,975

Retiree Health and Life Insurance Plans			
Service cost	**$ 820**	$ 1,016	$ 1,139
Interest cost	**1,120**	1,583	2,169
Expected return on plan assets	**(1,526)**	(1,446)	(1,385)
Amortization of prior service credit	**(6,491)**	(7,882)	(10,182)
Amortization of net actuarial loss	**(2)**	927	1,611
Net periodic benefit income	**$ (6,079)**	$ (5,802)	$ (6,648)

The following tables set forth the Plans obligations and assets at December 31:

	Retirement Plans		*Retiree Health and Life Insurance Plans*	
	2012	*2011*	*2012*	*2011*
Change in Benefit Obligation				
Benefit obligation at January 1	**$ 1,544,730**	$ 1,356,574	**$ 38,097**	$ 40,517
Service cost	**23,551**	20,796	**820**	1,016
Interest cost	**69,928**	70,869	**1,120**	1,583
Plan participant contributions	**609**	1,016	**1,229**	1,514
Plan amendments	**648**	1,629		(133)
Actuarial loss/(gain)	**163,194**	173,381	**(4,540)**	(3,185)
Benefits paid	**(84,150)**	(78,760)	**(4,158)**	(3,205)
Impact of foreign exchange rates	**11,854**	(2,999)	**13**	(10)
Other	**4,192**	2,224		
Benefit obligation at December 31	**$ 1,734,556**	$ 1,544,730	**$ 32,581**	$ 38,097

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	Retirement Plans		Retiree Health and Life Insurance Plans	
	2012	2011	2012	2011
Change in Plan Assets				
Fair value of plan assets at January 1	**$ 1,129,042**	$ 1,043,366	**$ 20,716**	$ 20,058
Actual return on plan assets	**152,907**	38,916	**2,704**	1,020
Company contributions	**65,362**	132,089	**777**	1,440
Plan participant contributions	**609**	1,016	**1,229**	1,514
Benefits paid	**(84,150)**	(78,760)	**(4,158)**	(3,205)
Impact of foreign exchange rates	**9,453**	(1,947)		
Expenses paid	**(5,837)**	(5,638)	**(85)**	(111)
Fair value of plan assets at December 31	**$ 1,267,386**	$ 1,129,042	**$ 21,183**	$ 20,716
Funded Status of the Plans	**$ (467,170)**	$ (415,688)	**$ (11,398)**	$ (17,381)

	Retirement Plans		Retiree Health and Life Insurance Plans	
	2012	2011	2012	2011
Total Recognized Amounts in the Consolidated Balance Sheets				
Current liabilities	**$ (16,068)**	$ (13,212)	**$ (1,250)**	$ (1,026)
Noncurrent liabilities	**(451,102)**	(402,476)	**(10,148)**	(16,355)
Net liability	**$ (467,170)**	$ (415,688)	**$ (11,398)**	$ (17,381)

Items not yet recognized as a component of net periodic pension cost that are included in Accumulated Other Comprehensive Loss (Income) as of December 31, 2012 and 2011, are as follows:

	Retirement Plans		Retiree Health and Life Insurance Plans	
	2012	2011	2012	2011
Net actuarial loss	**$ 742,579**	$ 680,134	**$ 2,349**	$ 7,980
Prior service cost/(credit)	**2,658**	2,418	**(4,407)**	(10,898)
Net transition obligation	**975**	1,458		
	$ 746,212	$ 684,010	**$ (2,058)**	$ (2,918)

The amounts recognized in Other Comprehensive Loss/(Income) during 2012 and 2011 include the following:

	Retirement Plans		Retiree Health and Life Insurance Plans	
	2012	2011	2012	2011
Adjustments arising during the period:				
Net actuarial loss/(gain)	**$ 100,349**	$ 222,913	**$ (5,633)**	$ (2,647)
Prior service cost/(credit)	**649**	1,619		(133)
Reversal of amortization:				
Net actuarial loss	**(37,904)**	(24,911)	**2**	(927)
Prior service cost/(credit)	**(409)**	(335)	**6,491**	7,882
Net transition obligation	**(483)**	(464)		
Total recognized in other comprehensive loss/(income)	**$ 62,202**	$ 198,822	**$ 860**	$ 4,175
Total recognized in net periodic benefit cost and other comprehensive loss/(income)	**$ 110,789**	$ 232,274	**$ (5,219)**	$ (1,627)

Of the amounts included in Accumulated Other Comprehensive Loss/(Income) as of December 31, 2012, the portions the Company expects to recognize as components of net periodic benefit cost in 2013 are as follows:

	Retirement Plans	Retiree Health and Life Insurance Plans
Net actuarial loss	$ 43,532	$ (3)
Prior service cost/(credit)	417	(2,973)
Net transition obligation	451	
	$ 44,400	$ (2,976)

The accumulated benefit obligation for all defined benefit plans was $1,665,597 and $1,480,657 at December 31, 2012 and 2011, respectively.

The projected benefit obligation (PBO), accumulated benefit obligation (ABO) and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were, $1,734,556, $1,665,597 and $1,267,385, respectively, as of December 31, 2012, and $1,544,730, $1,480,657 and $1,129,041, respectively, as of December 31, 2011.

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The following table sets forth the Company s projected benefit payments for the next ten years:

Year	*Retirement Plans*	*Retiree Health and Life Insurance Plans*
2013	$ 92,793	$ 2,950
2014	$ 91,496	$ 3,118
2015	$ 91,386	$ 3,273
2016	$ 89,193	$ 3,226
2017	$ 91,645	$ 3,138
2018-2022	$ 489,111	$ 12,682

Assumptions

The following tables set forth the major actuarial assumptions used in determining the PBO, ABO and net periodic cost:

Weighted-average assumptions used to determine benefit obligations at December 31	*U.S. Retirement Plans*	*U.S. Retiree Health and Life Insurance Plans*	*Foreign Plans*
Discount Rate			
2012	3.90%	3.16%	3.50-4.40%
2011	4.45%	3.76%	4.36-5.31%
Rate of Compensation Increase			
2012	4.29%	3.51%	2.50-3.50%
2011	4.63%	4.15%	2.50-3.50%

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31	*U.S. Retirement Plans*	*U.S. Retiree Health and Life Insurance Plans*	*Foreign Plans*
Discount Rate			
2012	4.45%	3.76%	4.36-5.31%
2011	5.21%	4.37%	4.40-6.00%
2010	5.74%	5.08%	5.00-6.75%
Expected Long-term Rate of Return			
2012	7.79%	7.52%	3.75-6.25%
2011	7.79%	8.00%	3.75-7.40%
2010	8.50%	8.50%	3.75-7.50%
Rate of Compensation Increase			
2012	4.63%	4.15%	2.50-3.50%
2011	4.49%	4.29%	2.50-4.50%
2010	4.59%	4.38%	2.50-4.00%

The Company adjusts its discount rates at the end of each fiscal year based on yield curves of high-quality debt instruments over durations that match the expected benefit payouts of each plan. The expected long-term rate of return assumption is based on the Company s current and expected future portfolio mix by asset class, and expected nominal returns of these asset classes using an economic building block approach. Expectations for inflation and real interest rates are developed and various risk premiums are assigned to each asset class based primarily on historical performance. The expected long-term rate of return also gives consideration to the expected level of outperformance to be achieved on that portion of the Company s investment portfolio under active management. The assumed rate of compensation increase reflects historical experience and management s expectations regarding future salary and incentive increases.

Medical trends

The U.S. Retiree Health and Life Insurance Plan makes up approximately 98% of the Retiree Health liability. Therefore, the following information relates to the U.S. plan only.

Healthcare Cost Trend Rate	*Pre-age 65*	*Post-age 65*
2012	8.00%	8.30%
2011	8.00%	8.00%

Ultimate Trend Rate	*Pre-age 65*	*Post-age 65*
2012	6.15%	6.16%
2011	5.50%	5.50%

Year at which the Rate Reaches the Ultimate Trend Rate	*Pre-age 65*	*Post-age 65*
2012	2045	2045
2011	2017	2017

Increasing the assumed trend rate for healthcare costs by one percentage point would increase the accumulated postretirement benefit obligation (the APBO) and total service and interest cost component approximately $508 and $48, respectively. Decreasing the assumed trend rate for healthcare costs by one percentage point would decrease the APBO and total service and interest cost component approximately $462 and $43, respectively. Based on amendments to the U.S. plan approved in 1999, which became effective in 2003, cost increases borne by the Company are limited to the Urban CPI, as defined.

Plan changes and amendments

During 2010, certain retiree medical benefits and life insurance coverage under the Company s U.S. Retiree Medical and Life Insurance Plan were changed, reducing the accumulated postretirement benefit obligation by $4,566. The resulting prior service credit is being amortized over a period of approximately four years.

During 2009, the Company s U.S. qualified defined benefit pension plan was amended to allow a lump sum payment option upon termination to plan participants who chose to freeze their benefit December 31, 2009, and move to the SIRP. The effect of this and other smaller amendments was a reduction in the projected benefit obligation of $4,300. Also

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during 2009, the Company amended its U.S. Retiree Medical and Life Insurance Plan to freeze the Company subsidy for both pre- and post-Medicare retiree medical coverage at 2009 levels effective January 1, 2010, and to eliminate any early retirement reduction factor applied to the Company subsidy for pre-Medicare coverage for current retirees as of December 31, 2009. In addition, the Company will no longer provide post-Medicare retiree medical coverage to its active employees or post-1981 retirees, except for certain union groups. The impact of these changes was an overall reduction in the accumulated postretirement benefit obligation of $17,625, which is being amortized over a period of 3.3 years.

During 2005, the Company announced changes in eligibility for retiree medical benefits effective January 1, 2006, for its U.S. plan. These changes included the elimination of a Company subsidy toward the costs of retiree benefits if certain age and service criteria were not met, as well as the elimination of Company-provided prescription drug benefits for Medicare-eligible retirees for those employees who retired after 1981 and for all future retirees. These changes resulted in an overall reduction in the accumulated postretirement benefit obligation of $38,132 in 2005, which was amortized over a period of 4.6 years. The benefit from the amortization of these prior service credits ended during 2010.

Retirement plan assets

The following table sets forth the weighted-average asset allocations of the Company s retirement plans at December 31, 2012 and 2011, by asset category.

Asset Category		*U.S.*	*U.K.*	*Canada*
Equity securities	2012	52.1%	67.3%	66.0%
	2011	49.6%	69.2%	59.6%
Debt securities	2012	36.0%	31.9%	32.7%
	2011	37.4%	30.0%	39.0%
Alternative	2012	11.8%	0.0%	0.0%
	2011	12.6%	0.0%	0.0%
Cash and short-term investments	2012	0.1%	0.8%	1.3%
	2011	0.4%	0.8%	1.4%
Total	2012	100.0%	100.0%	100.0%
	2011	100.0%	100.0%	100.0%

The Company employs a total-return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a desired level of risk. Alternative assets such as real estate funds, private equity funds and hedge funds are used to enhance expected long-term returns while improving portfolio diversification. Risk tolerance is established through consideration of plan liabilities, plan funded status and corporate financial condition. Investment risk is measured and monitored on an ongoing basis through periodic investment portfolio reviews and periodic asset/liability studies.

At December 31, 2012, postretirement benefit plan assets totaled $1,288,568, of which $980,947 were assets of the U.S. Defined Benefit Plan.

U.S. defined benefit plans

The equity investments consist of direct ownership and funds and are diversified among U.S. and non-U.S. stocks of small to large capitalizations. Following the December 2010 amendment that split the U.S. qualified defined benefit pension plan into the Active Plan and the Inactive Plan effective January 1, 2011, the Company completed separate asset/liability studies for both plans during 2011 and adopted revised investment guidelines for each. The revised guidelines establish a dynamic de-risking framework that will gradually shift the allocation of assets to long-duration domestic fixed income from equity and other asset categories, as the relative funding ratio of each plan increases over time. The current target allocation (midpoint) for the Inactive Plan investment portfolio is: Equity Securities 49%, Debt Securities 40%, Alternative 11% and Cash 0%. The current target allocation (midpoint) for the Active Plan investment portfolio is: Equity Securities 57%, Debt Securities 30%, Alternative 13% and Cash 0%.

United Kingdom defined benefit plan

The equity investments consist of direct ownership and funds and are diversified among U.K. and international stocks of small and large capitalizations. The current target allocation (midpoint) for the investment portfolio is: Equity Securities 72%, Debt Securities 22%, Alternative 5% and Cash 1%.

Canada defined benefit plan

The equity investments consist of direct ownership and funds and are diversified among Canadian and international stocks of primarily large capitalizations and short to intermediate duration corporate and government bonds. The current target allocation (midpoint) for the investment portfolio is: Equity Securities 60%, Debt Securities 40%, Alternative 0% and Cash 0%.

Retiree health and life insurance plan assets

The following table sets forth the weighted-average asset allocations of the Company s U.S. retiree health and life insurance plan at December 31, 2012 and 2011, by asset category. As mentioned previously, the U.S. Retiree Health and Life Insurance Plan comprises approximately 98% of the Retiree Health liability. Therefore, the following information relates to the U.S. Plan only.

Asset Category	
Equity securities	
2012	54.6%
2011	46.8%
Debt securities	
2012	37.9%
2011	44.4%
Alternative	
2012	7.1%
2011	7.7%
Cash	
2012	0.4%
2011	1.1%
Total	
2012	100.0%
2011	100.0%

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Contributions

Based on current actuarial estimates, the Company anticipates that the total contributions to its retirement plans and retiree health and life insurance plans will be approximately $43,000 in 2013. No assurances can be made, however, about funding requirements beyond 2013, as they will depend largely on actual investment returns and future actuarial assumptions.

Sonoco Savings Plan

The Sonoco Savings Plan is a defined contribution retirement plan provided for the Company s U.S. employees. In accordance with the Internal Revenue Service s Safe Harbor matching contributions and vesting provisions, the plan had provided 100% Company matching on the first 3% of compensation contributed by the participant as pretax contributions, 50% Company matching on the next 2% of compensation contributed by the participant as pretax contributions and 100% immediate vesting. The plan also provides for participant contributions of 1% to 30% of gross pay. The Company s matching contribution to the Sonoco Savings Plan was temporarily suspended effective June 1, 2009. A modified matching contribution was subsequently reinstated by the Company effective January 1, 2010. Under the modified matching arrangement, the Company matches 50% on the first 4% of compensation contributed by the participant as pretax contributions. The Company s expenses related to the plan for 2012, 2011 and 2010 were approximately $8,920, $8,670 and $7,950, respectively.

Sonoco Investment and Retirement Plan

The Sonoco Investment and Retirement Plan (SIRP) is a defined contribution pension plan provided for the Company s salaried and non-union U.S. employees who were hired on or after January 1, 2004, or those former participants in the Company s U.S. qualified defined benefit pension plan who elected to transfer into the SIRP under a one-time option effective January 1, 2010. The Company makes an annual contribution of 4% of all eligible pay plus 4% of eligible pay in excess of the Social Security wage base to eligible participant accounts. Participants are fully vested after five years of service or upon reaching age 55, if earlier. The Company s expenses related to the plan for 2012, 2011 and 2010 were approximately $10,350, $9,200 and $9,300, respectively. Cash contributions to the SIRP totaled $8,920, $8,568 and $4,822 in 2012, 2011 and 2010, respectively.

Other plans

The Company also provides retirement and postretirement benefits to certain other non-U.S. employees through various Company-sponsored and local government sponsored defined contribution arrangements. For the most part, the liabilities related to these arrangements are funded in the period they arise. The Company s expenses for these plans were not material for all years presented.

13. Income taxes

The provision for taxes on income for the years ended December 31 consists of the following:

	2012	*2011*	*2010*
Pretax income			
Domestic	**$ 202,594**	$ 208,588	$ 183,447
Foreign	**84,480**	75,818	71,007
Total pretax income	**$ 287,074**	$ 284,406	$ 254,454
Current			
Federal	**$ 57,424**	$ 27,920	$ 26,560
State	**5,891**	5,910	2,714
Foreign	**22,123**	34,794	22,713
Total current	**$ 85,438**	$ 68,624	$ 51,987
Deferred			
Federal	**$ 13,552**	$ 34,992	$ 23,744
State	**6,303**	6,249	1,187
Foreign	**(1,534)**	(31,442)	(12,433)
Total deferred	**$ 18,321**	$ 9,799	$ 12,498
Total taxes	**$ 103,759**	$ 78,423	$ 64,485

Deferred tax liabilities/(assets) are comprised of the following at December 31:

	2012	*2011*

Depreciation	$	109,973	$	114,037
Intangibles		156,859		150,962
Gross deferred tax liabilities	$	266,832	$	264,999
Retiree health benefits	$	(6,661)	$	(10,871)
Foreign loss carryforwards		(89,115)		(87,689)
U.S. Federal loss carryforwards		(26,967)		(33,995)
Capital loss carryforwards		(3,769)		(6,101)
Employee benefits		(215,907)		(183,690)
Accrued liabilities and other		(83,335)		(87,213)
Gross deferred tax assets	$	(425,754)	$	(409,559)
Valuation allowance on deferred tax assets	$	61,563	$	55,713
Total deferred taxes, net	$	(97,359)	$	(88,847)

Federal operating loss carryforwards of approximately $77,000 remain from the Tegrant acquisition. The use of these losses is limited by U.S. tax law, but it is expected that these losses will be fully utilized prior to their expiration. These carryforwards expire at various times between 2023 and 2031, depending on the year incurred. The Company does not have any other U.S. federal operating loss carryforwards. Foreign subsidiary loss carryforwards of approximately $350,000 remain at December 31, 2012. Their use is limited to future taxable earnings of the respective foreign subsidiaries. Approximately $237,000 of these loss carryforwards do not have an expiration date. The remaining loss carryforwards expire at various dates in the future. Approximately $16,400 of state loss carryforwards and $5,000 of state credit carryforwards remain at December 31, 2012. The state loss and credit carryforwards expire at various dates in the future.

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A reconciliation of the U.S. federal statutory tax rate to the actual consolidated tax expense is as follows:

	2012		2011		2010	
Statutory tax rate	**$ 100,476**	35.0%	$ 99,542	35.0%	$ 89,059	35.0%
State income taxes, net of federal tax benefit	**4,444**	1.5	6,370	2.2	4,308	1.7
Valuation allowance	**5,201**	1.8	(20,533)	(7.2)	(5,788)	(2.3)
Tax examinations including change in reserve for uncertain tax positions	**424**	0.1	6,313	2.2	(2,878)	(1.1)
Change in estimates related to prior years	**(2,111)**	(0.7)	(1,006)	(0.4)	1,274	0.5
Foreign earnings taxed at other than U.S. rates	**(8,224)**	(2.9)	(9,730)	(3.4)	(17,153)	(6.8)
U.S. taxes on dividends from foreign subsidiaries	**11,744**	4.1				
Effect of tax rate changes enacted during the year	**(1,399)**	(0.5)	(952)	(0.3)	645	0.3
Deduction related to qualified production activities	**(4,325)**	(1.5)	(2,860)	(1.0)	(3,162)	(1.2)
Other, net	**(2,471)**	(0.8)	1,279	0.4	(1,820)	(0.7)
Total taxes	**$ 103,759**	36.1%	$ 78,423	27.5%	$ 64,485	25.3%

The change in Tax examinations including change in reserve for uncertain tax positions is shown net of associated deferred taxes and accrued interest. Included in the change are net increases of approximately $4,300, $9,800 and $5,200 for uncertain items arising in 2012, 2011 and 2010, respectively. Also included are adjustments related to prior year items, primarily decreases related to lapses of statutes of limitations in international, federal and state jurisdictions as well as overall changes in facts and judgment. These adjustments decreased the reserve by a total of approximately $(3,800), $(3,500) and $(13,300) in 2012, 2011 and 2010, respectively.

In many of the countries in which the Company operates, earnings are taxed at rates lower than in the U.S. This benefit is reflected in Foreign earnings taxed at other than U.S. rates along with other items, if any, that impacted taxes on foreign earnings in the periods presented. Included in 2010 is a $5,474 benefit from a regulatory clarification of a 2009 change in Mexican tax law.

The benefits included in Change in estimates related to prior years for each of the years presented consist primarily of adjustments to deferred tax assets and liabilities arising from the availability of more accurate estimates.

Included in Valuation Allowance in 2011 is a benefit of $24,282 from the release of a valuation allowance against net operating losses in France. Improved operating results and anticipated benefits from planned restructuring actions provided the Company with sufficient evidence to conclude that it was more likely than not that the assets could be recovered.

The Company initiated a repatriation of approximately $260,000 of cash from certain foreign subsidiaries during 2012 and has accrued the U.S. tax liability associated with these payments. Exclusive of such amounts, undistributed earnings of international subsidiaries totaled $502,600 at December 31, 2012. Deferred taxes have not been provided on the undistributed earnings, as the Company considers these amounts to be indefinitely reinvested to finance the growth and expansion of its international operations. Computation of the potential deferred tax liability associated with those unremitted earnings deemed to be indefinitely reinvested is not practicable. If such amounts were remitted, loaned to the Company, or the stock in the foreign subsidiaries sold, these earnings could become subject to tax.

Reserve for uncertain tax positions

The following table sets forth the reconciliation of the gross amounts of unrecognized tax benefits at the beginning and ending of the periods indicated:

	2012	2011	2010
Gross Unrecognized Tax Benefits at January 1	**$ 32,800**	$ 28,100	$ 45,600
Increases in prior years unrecognized tax benefits	**4,300**	600	4,700
Decreases in prior years unrecognized tax benefits	**(4,200)**	(1,600)	(16,600)
Increases in current year unrecognized tax benefits	**4,300**	11,200	5,800
Decreases in unrecognized tax benefits from the lapse of statutes of limitations	**(4,700)**	(4,500)	(7,000)
Settlements	**(1,200)**	(1,000)	(4,400)
Gross Unrecognized Tax Benefits at December 31	**$ 31,300**	$ 32,800	$ 28,100

Of the unrecognized tax benefit balances at December 31, 2012 and December 31, 2011, approximately $23,900 and $24,700, respectively, would have an impact on the effective tax rate if ultimately recognized.

Interest and/or penalties related to income taxes are reported as part of income tax expense. The Company had approximately $4,400 and $4,100 accrued for interest related to uncertain tax positions at December 31, 2012 and December 31, 2011, respectively. Tax expense for the year ended December 31, 2012, includes approximately $300 of interest expense, which is comprised of an interest benefit of approximately $2,500 related to the expiration of statutes of limitations and other releases and interest expense of $2,800 on unrecognized tax benefits. The amounts listed above for accrued interest and interest expense do not reflect the benefit of a federal tax deduction which would be available if the interest were ultimately paid.

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The Company and/or its subsidiaries file federal, state and local income tax returns in the United States and various foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, or non-U.S., income tax examinations by tax authorities for years before 2009. With respect to state and local income taxes, the Company is no longer subject to examination prior to 2007, with few exceptions.

The estimate for the potential outcome of any uncertain tax issue is highly judgmental. The Company believes it has adequately provided for any reasonable foreseeable outcome related to these matters. However, future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. Additionally, the jurisdictions in which earnings or deductions are realized may differ from current estimates. As a result, the effective tax rate may fluctuate significantly on a quarterly basis.

14. Commitments and contingencies

Pursuant to U.S. GAAP, accruals for estimated losses are recorded at the time information becomes available indicating that losses are probable and that the amounts are reasonably estimable.

Environmental matters

During the fourth quarter of 2005, the U.S. Environmental Protection Agency (EPA) notified U.S. Paper Mills Corp. (U.S. Mills), a wholly owned subsidiary of the Company, that U.S. Mills and NCR Corporation (NCR), an unrelated party, would be jointly held responsible to undertake a program to remove and dispose of certain PCB-contaminated sediments at a particular site on the lower Fox River in Wisconsin (the Site) which is now labeled by the EPA as Phase 1. U.S. Mills and NCR reached an agreement between themselves that each would fund 50% of the costs of remediation. The Company has expensed a total of $17,650 ($12,500 in 2005 and $5,150 in 2007) for its estimated share of the total cleanup cost of the Site, and through December 31, 2012, has spent a total of $14,467. The remaining accrual of $3,183 represents the Company s best estimate of what it is likely to pay to complete the Site project. However, the actual costs associated with cleanup of the Site are dependent upon many factors and it is possible that remediation costs could be higher than the current estimate of project costs. The Company acquired U.S. Mills in 2001, and the alleged contamination predates the acquisition.

In February 2007, the EPA and Wisconsin Department of Natural Resources (WDNR) issued a general notice of potential liability under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and a request to participate in remedial action implementation negotiations relating to a stretch of the lower Fox River, including the bay at Green Bay (Operating Units 2 5), to eight potentially responsible parties, including U.S. Mills. Operating Units 2 5 include, but also comprise, a vastly larger area than the Site. U.S. Mills is reviewing this information and discussing possible remediation scenarios, and the allocation of responsibility therefor, with other potentially responsible parties. On April 9, 2007, U.S. Mills, in conjunction with other potentially responsible parties, presented to the EPA and the WDNR a proposed schedule to mediate the allocation issues among eight potentially responsible parties, including U.S. Mills. Non-binding mediation began in May 2007 and continued as bilateral/multilateral negotiations, although no agreement among the parties occurred.

On November 13, 2007, the EPA issued a unilateral Administrative Order for Remedial Action pursuant to Section 106 of CERCLA. The order requires U.S. Mills and the seven other respondents jointly to take various actions to clean up Operating Units 2 5. The order establishes two phases of work. The first phase consists of planning and design work as well as preparation for dredging and other remediation work and initially was required to be completed by December 31, 2008. The second phase consists primarily of dredging and disposing of contaminated sediments and capping of the dredged and less contaminated areas of the river bottom. The second phase was required to begin in 2009 and is expected to continue for several years. The order also provides for a $32.5 per day penalty for failure by a respondent to comply with its terms as well as exposing a non-complying respondent to potential treble damages. Although U.S. Mills has reserved its rights to contest liability for any portion of the work, it is cooperating with the other respondents to comply with the first phase of the order. However, its financial contribution will likely be determined by the lawsuit commenced in June 2008.

On June 12, 2008, NCR and Appleton Papers, Inc. (API), as plaintiffs, commenced suit in the United States District Court for the Eastern District of Wisconsin (No. 08-CV-0016-WCG) against U.S. Mills, as one of a number of defendants, seeking a declaratory judgment allocating among all the parties the costs and damages associated with the pollution and cleanup of the Lower Fox River. The suit also seeks damages from the defendants for amounts already spent by the plaintiffs, including natural resource damages, and future amounts to be spent by all parties with regard to the pollution and cleanup of the Lower Fox River. On December 16, 2009, the court issued an order which concluded that, under the equities of the case, NCR and API were not entitled to any contribution from U.S. Mills and other defendants, thereby granting the defendants motions for summary judgment and denying the plaintiffs motions for summary judgment. Although an order has been issued by the court, no appealable final judgment has been entered yet; nevertheless, NCR has reported that it intends to appeal the ruling, presumably after entry of the final judgment. Subsequent to the December 2009 ruling, U.S. Mills and other defendants made motions to have the court rule that, on the same basis as the December 2009 ruling, NCR would be responsible for any costs that U.S. Mills and the other defendants might incur, past, present and future. These motions have been granted by the court, but are also subject to being appealed. The Company believes that this suit will have a minimal, if any, impact on the total amount of the potential remediation costs associated with Operating Units 2 5, but it may have a substantial impact on U.S. Mills share of those costs. U.S. Mills plans to defend the suit vigorously.

On October 14, 2010, the EPA and WDNR filed suit against NCR, API, U.S. Mills and nine other defendants in the United States District Court for the Eastern District of Wisconsin

(No. 10-CV-00910-WCG) pursuant to Sections 106 and 107 of CERCLA. The plaintiffs seek to recover unreimbursed costs incurred for activities undertaken in response to the release and threatened release of hazardous substances from facilities at or near the Lower Fox River and Green Bay as well as damages for injury to, loss of, and destruction of natural resources resulting from such releases. The plaintiffs also seek a ruling that the defendants are liable for future response costs of the plaintiffs and requiring the defendants to comply with the unilateral Administrative Order for Remedial Action discussed in prior filings. The Company does not believe that the remedies sought in the suit materially expand the Company s potential liability beyond what has been disclosed in this report or in the Company s prior filings with the SEC. U.S. Mills has entered into a stipulation with the plaintiffs that, in exchange for U.S. Mills admitting that it is liable for discharging PCB containing wastewater into the river, the plaintiffs would not seek an injunction in this proceeding against U.S. Mills requiring it to participate in the completion of the Fox River remediation. U.S. Mills plans to continue to defend its interests in the suit vigorously.

Since 2007, the Company has expensed a total of $60,825 for potential liabilities associated with the Fox River contamination (not including amounts expensed for remediation at the Site) and through December 31, 2012, has spent a total of $10,036, primarily on legal fees, leaving a reserve of $50,789 for potential liabilities associated with the Fox River contamination (not including amounts accrued for remediation at the Site) remaining at December 31, 2012. Because of the continuing uncertainties in the estimated costs of remediation and continuing uncertainties surrounding U.S. Mills allocable share, including a potentially favorable resolution, it is impossible to state with any reasonable degree of certainty that any estimate is a better estimate than the amount recorded. However, because the discharges of hazardous materials into the environment occurred before the Company acquired U.S. Mills, and U.S. Mills has been operated as a separate subsidiary of the Company, the Company does not believe that it bears financial responsibility for these legacy environmental liabilities of U.S. Mills. Therefore, the Company continues to believe that the maximum additional exposure to its consolidated financial position is limited to the equity position of U.S. Mills, which was approximately $91,000 at December 31, 2012.

On November 8, 2011, the Company completed the acquisition of Tegrant Holding Corporation (Tegrant). During its due diligence, the Company identified several potentially environmentally contaminated sites. The total remediation cost of these sites was preliminarily estimated to be $18,850 at the time of the acquisition and an accrual in this amount was recorded on Tegrant s opening balance sheet.

The Company has been named as a potentially responsible party at several other environmentally contaminated sites. All of the sites are also the responsibility of other parties. The potential remediation liabilities are shared with such other parties, and, in most cases, the Company s share, if any, cannot be reasonably estimated at the current time.

As of December 31, 2012 and 2011, the Company (and its subsidiaries) had accrued $75,605 and $78,590, respectively, related to environmental contingencies. Of these, a total of $53,972 and $56,768 relate to U.S. Mills and $18,733 and $18,846 relate to Tegrant at December 31, 2012 and 2011, respectively. These accruals are included in Accrued expenses and other on the Company s Consolidated Balance Sheets. U.S. Mills recognized a $40,825 benefit in 2008 from settlements reached and proceeds received on certain insurance policies covering the Fox River contamination. U.S. Mills two remaining insurance carriers are in liquidation. It is possible that U.S. Mills may recover from these carriers a small portion of the costs it ultimately incurs. U.S. Mills may also be able to reallocate some of the costs it incurs among other parties. There can be no assurance that such claims for recovery or reallocation would be successful and no amounts have been recognized in the consolidated financial statements of the Company for such potential recovery or reallocation.

Other legal matters

In addition to those described above, the Company is subject to other various legal proceedings, claims and litigation arising in the normal course of business. While the outcome of these matters could differ from management s expectations, the Company does not believe that the resolution of these matters has a reasonable possibility of having a material adverse effect on the Company s financial statements.

Commitments

As of December 31, 2012, the Company had long-term obligations to purchase electricity and steam, which it uses in its production processes, as well as long-term purchase commitments for certain raw materials, principally old corrugated containers. These purchase commitments require the Company to make total payments of approximately $302,400, as follows: $86,400 in 2013; $62,600 in 2014; $38,100 in 2015, $36,100 in 2016 and a total of $79,200 from 2017 through 2022.

15. Shareholders equity and earnings per share

Stock repurchases

The Company occasionally repurchases shares of its common stock to satisfy employee tax withholding obligations in association with the exercise of stock appreciation rights and performance-based stock awards. These repurchases, which are not part of a publicly announced plan or program, totaled 126,765 shares during 2012, 94,295 shares during 2011 and 43,084 shares during 2010, at a cost of $4,167, $3,145 and $1,439, respectively.

The Company s Board of Directors has authorized the repurchase of up to 5,000,000 shares of the Company s common stock. On December 3, 2010, the Company announced it would immediately begin repurchasing 2,000,000 shares of the 5,000,000 authorized. During 2010, a total of 695,036 shares were repurchased under this program at a cost of $23,219. During the first quarter of 2011, an additional 1,304,964 shares were repurchased at a cost of $46,297, completing the announced buyback. On April 20, 2011, the Company s Board of Directors reinstated 2,000,000 shares to its authorization. No additional shares have been repurchased since the reinstatement. Accordingly, at December 31, 2012, a total of 5,000,000 shares remain available for repurchase.

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Earnings per share

The following table sets forth the computation of basic and diluted earnings per share:

	2012	2011	2010
Numerator:			
Net income attributable to Sonoco	**$ 196,010**	$ 217,517	$ 201,053
Denominator:			
Weighted average common shares outstanding	**101,804,000**	101,071,000	101,599,000
Dilutive effect of stock-based compensation	**769,000**	1,102,000	944,000
Diluted outstanding shares	**102,573,000**	102,173,000	102,543,000
Per common share:			
Net income attributable to Sonoco:			
Basic	**$ 1.93**	$ 2.15	$ 1.98
Diluted	**$ 1.91**	$ 2.13	$ 1.96

The Company paid dividends totaling $1.19, $1.15 and $1.11 per share in 2012, 2011 and 2010, respectively.

Certain stock appreciation rights and options to purchase shares of the Company s common stock are not dilutive because the exercise price is greater than the market price of the stock at the end of the fiscal year or they have not fully vested. Accordingly, the following shares were not included in the computations of diluted income per share amounts:

	2012	2011	2010
Anti-dilutive options/SARs	**2,440,270**	1,753,451	1,294,075

These options/SARs may become dilutive in future periods if the market price of the Company s common stock appreciates. No adjustments were made to reported net income in the computation of earnings per share.

Noncontrolling interests

In April 2011, the Company acquired the remaining 49% interest in its 51%-owned subsidiary, Sonoco For Plas do Brazil Ltda., for $5,718 in cash. As a result of the transaction, the Company wrote off the $2,727 carrying amount of noncontrolling interest and recorded a reduction in Capital in excess of stated value of $2,991.

16. Segment reporting

The Company reports its financial results in four reportable segments Consumer Packaging, Paper and Industrial Converted Products, Display and Packaging, and Protective Solutions. Effective the fourth quarter of 2012, the Company changed the name of what had been called Packaging Services to Display and Packaging and what had been called Protective Packaging to Protective Solutions to better describe the segments business activities. There was no change to the composition of these segments

The Consumer Packaging segment includes the following products and services: round and shaped rigid containers and trays (both composite and thermoformed plastic); blow-molded plastic bottles and jars; extruded and injection-molded plastic products; printed flexible packaging; metal and peelable membrane ends and closures; and global brand artwork management.

The Paper and Industrial Converted Products segment includes the following products: high-performance paper and composite paperboard tubes and cores; fiber-based construction tubes and forms; wooden, metal and composite wire and cable reels and spools; and recycled paperboard, linerboard, corrugating medium, recovered paper and other recycled materials.

The Display and Packaging segment includes the following products and services: designing, manufacturing, assembling, packing and distributing temporary, semipermanent and permanent point-of-purchase displays; supply chain management services, including contract packing, fulfillment and scalable service centers; and paper amenities, such as coasters and glass covers.

The Protective Solutions segment includes the following products: custom-engineered paperboard-based and expanded foam protective packaging; temperature-assurance packaging; and retail security packaging.

Restructuring charges, asset impairment charges, insurance settlement gains, acquisition-related costs, debt tender charges, interest expense and interest income are included in income before income taxes under Corporate.

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The following table sets forth financial information about each of the Company s business segments:

	Years ended December 31					
	Consumer Packaging	Paper and Industrial Converted Products	Display and Packaging	Protective Solutions	Corporate	Consolidated
Total Revenue						
2012	$ 1,920,114	$ 1,937,523	$ 479,885	$ 557,176	$	$ 4,894,698
2011	1,982,989	1,996,221	472,935	158,936		4,611,081
2010	1,802,514	1,845,927	478,348	105,781		4,232,570
Intersegment Sales[1]						
2012	$ 7,493	$ 96,696	$ 2,253	$ 2,127	$	$ 108,569
2011	5,691	104,000	1,491	967		112,149
2010	4,043	101,958	1,099	1,349		108,449
Sales to Unaffiliated Customers						
2012	$ 1,912,621	$ 1,840,827	$ 477,632	$ 555,049	$	$ 4,786,129
2011	1,977,298	1,892,220	471,445	157,969		4,498,932
2010	1,798,471	1,743,969	477,249	104,432		4,124,121
Income Before Income Taxes[2]						
2012	$ 176,768	$ 141,351	$ 18,512	$ 38,797	$ (88,354)	$ 287,074
2011	191,475	138,207	21,733	15,228	(82,237)	284,406
2010	196,005	136,418	14,157	17,505	(109,631)	254,454
Identifiable Assets[3]						
2012	$ 1,298,381	$ 1,316,606	$ 358,225	$ 711,555	$ 491,298	$ 4,176,065
2011	1,357,691	1,294,712	327,927	721,793	290,676	3,992,799
2010	1,324,301	1,463,651	323,086	16,911	153,065	3,281,014
Depreciation, Depletion and Amortization[4]						
2012	$ 75,556	$ 83,329	$ 7,692	$ 33,826	$	$ 200,403
2011	80,257	86,559	7,434	5,621		179,871
2010	74,692	84,363	8,785	1,825		169,665
Capital Expenditures						
2012	$ 58,284	$ 112,298	$ 3,302	$ 14,757	$ 26,221	$ 214,862
2011	60,795	86,821	4,578	3,884	17,294	173,372
2010	66,323	63,948	8,315	938	6,386	145,910

1 Intersegment sales are recorded at a market-related transfer price.

2 Included in Corporate are restructuring, asset impairment charges, acquisition-related charges and insurance settlement gains associated with the following segments:

	Consumer Packaging	Paper and Industrial Converted Products	Display and Packaging	Protective Solutions	Corporate	Total
2012	$ 9,638	$ 12,787	$ 1,692	$ 3,732	$ 519	$ 28,369
2011	19,790	6,163	4,575	4,901	8,734	44,163
2010	16,906	6,651	1,969	61	321	25,908

The remaining amounts reported as Corporate consist of interest expense, interest income and debt tender charges.

3 Identifiable assets are those assets used by each segment in its operations. Corporate assets consist primarily of cash and cash equivalents, investments in affiliates, headquarters facilities, deferred income taxes and prepaid expenses.

4 Depreciation, depletion and amortization incurred at Corporate are allocated to the reportable segments.

Geographic regions

Sales to unaffiliated customers and long-lived assets by geographic region are as follows:

	2012	2011	2010
Sales to Unaffiliated Customers			
United States	**$ 3,165,772**	$ 2,821,043	$ 2,659,844
Europe	**768,667**	777,200	693,719
Canada	**338,657**	385,805	328,849
All other	**513,033**	514,884	441,709
Total	**$ 4,786,129**	$ 4,498,932	$ 4,124,121
Long-lived Assets			
United States	**$ 1,910,824**	$ 1,884,897	$ 1,349,561
Europe	**275,884**	279,969	289,418
Canada	**229,129**	253,057	262,903
All other	**117,071**	113,777	119,690
Total	**$ 2,532,908**	$ 2,531,700	$ 2,021,572

Sales are attributed to countries/regions based upon the plant location from which products are shipped. Long-lived assets are comprised of property, plant and equipment, goodwill, intangible assets and investment in affiliates (see Notes 6 and 7).

17. Accumulated other comprehensive loss

The following table summarizes the components of accumulated other comprehensive loss and the changes in accumulated other comprehensive loss, net of tax as applicable, for the years ended December 31, 2012 and 2011:

	Foreign Currency Translation Adjustments	*Defined Benefit Plans*	*Derivative Financial Instruments*	*Accumulated Other Comprehensive Loss*
Balance at December 31, 2010	$ 17,685	$ (303,037)	$ (7,515)	$ (292,867)
Change during 2011	(38,962)	(127,798)	(672)	(167,432)
Balance at December 31, 2011	$ (21,277)	$ (430,835)	$ (8,187)	$ (460,299)
Change during 2012	24,511	(41,498)	1,460	(15,527)
Balance at December 31, 2012	$ 3,234	$ (472,333)	$ (6,727)	$ (475,826)

The cumulative tax benefit on Derivative Financial Instruments was $4,045 and $5,024 at December 31, 2012 and 2011, respectively. The tax benefit on Derivative Financial Instruments decreased by $(979) and increased by $618 during the years ended December 31, 2012 and 2011, respectively.

The cumulative tax benefit on Defined Benefit Plans was $278,235 and $255,466 at December 31, 2012 and 2011, respectively. The tax benefit on Defined Benefit Plans increased by $22,769 and $75,838 during the years ended December 31, 2012 and 2011, respectively.

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The change in defined benefit plans includes pretax changes of $(1,206) and $(639) during the years ended December 31, 2012 and 2011, related to changes in benefit plans of one of the Company s equity method investments.

18. Selected quarterly financial data

The following table sets forth selected quarterly financial data of the Company:

(unaudited)	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
2012				
Net sales	**$ 1,212,370**	**$ 1,202,359**	**$ 1,195,530**	**$ 1,175,870**
Gross profit	**216,861**	**216,542**	**206,229**	**204,000**
Restructuring/Asset impairment charges	**(15,212)**	**(9,396)**	**444**	**(8,694)**
Net income attributable to Sonoco	**43,068**	**51,323**	**58,836**	**42,783**
Per common share:				
Net income attributable to Sonoco:				
- basic	$ .42	$ .50	$ .58	$ .42
- diluted	.42	.50	.57	.42
Cash dividends				
- common	.29	.30	.30	.30
Market price				
- high	34.83	33.91	31.67	32.51
- low	31.02	29.57	28.61	29.00
2011				
Net sales	$ 1,117,323	$ 1,127,865	$ 1,124,171	$ 1,129,573
Gross profit	194,209	191,090	186,740	184,744
Restructuring/Asset impairment charges	(2,317)	(9,578)	(12,048)	(12,883)
Net income attributable to Sonoco	57,391	53,408	77,203	29,515
Per common share:				
Net income attributable to Sonoco:				
- basic	$ .57	$ .53	$ .76	$ .29
- diluted	.56	.52	.76	.29
Cash dividends				
- common	.28	.29	.29	.29
Market price				
- high	36.89	36.95	36.05	33.64
- low	33.96	32.71	27.62	26.10

Item 9. Changes in and disagreements with accountants on accounting and financial disclosure

Not applicable.

Item 9A. Controls and procedures

Evaluation of disclosure controls and procedures

Under the supervision, and with the participation, of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures, as of the end of the year covered by this Annual Report on Form 10-K, were effective.

Management s report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2012. PricewaterhouseCoopers LLP (PwC), our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2012, and has issued a report, which appears at the beginning of Item 8 of this Annual Report on Form 10-K.

Changes in internal control over financial reporting

The Company is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This results in refinements to processes throughout the Company. However, there has been no change in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other information

Not applicable.

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PART III

Item 10. Directors, executive officers and corporate governance

The information set forth in the Company s definitive Proxy Statement for the annual meeting of shareholders to be held on April 17, 2013 (the Proxy Statement), under the captions Election of Directors, Information Concerning Directors Whose Terms Continue, Additional Information About Experience and Qualifications of Directors and Nominees, and Section 16(a) Beneficial Ownership Reporting Compliance, is incorporated herein by reference. Information about executive officers of the Company is set forth in Item 1 of this Annual Report on Form 10-K under the caption Executive Officers of the Registrant.

Code of Ethics The Company has adopted a code of ethics (as defined in Item 406 of Regulation S-K) that applies to its principal executive officer, principal financial officer, principal accounting officer, and other senior executive and senior financial officers. This code of ethics is available through the Company s website, www.sonoco.com, and is available in print to any shareholder who requests it. Any waivers or amendments to the provisions of this code of ethics will be posted to this website within four business days after the waiver or amendment.

Audit Committee Members The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The audit committee is comprised of the following members: Marc D. Oken, Chairman; Edgar H. Lawton III; John E. Linville; James M. Micali; and Philippe R. Rollier. Effective at the April 16, 2013 meeting, Marc D. Oken will be replaced as Chairman by Thomas E. Whiddon, and will remain a member of the committee.

Audit Committee Financial Expert The Company s Board of Directors has determined that the Company has at least one audit committee financial expert, as that term is defined by Item 407(d)(5) of Regulation S-K promulgated by the Securities and Exchange Commission, serving on its audit committee. Marc D. Oken meets the terms of the definition and is independent based on the criteria in the New York Stock Exchange Listing Standards. Pursuant to the terms of Item 407(d)(5) of Regulation S-K, a person who is determined to be an audit committee financial expert will not be deemed an expert for any purpose as a result of being designated or identified as an audit committee financial expert pursuant to Item 407, and such designation or identification does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the audit committee and Board of Directors in the absence of such designation or identification. Further, the designation or identification of a person as an audit committee financial expert pursuant to Item 407 does not affect the duties, obligations or liability of any other member of the audit committee or Board of Directors.

The Company s Corporate Governance Guidelines, Audit Committee Charter, Corporate Governance and Nominating Committee Charter and Executive Compensation Committee Charter are available through the Company s website, www.sonoco.com. This information is available in print to any shareholder who requests it.

Item 11. Executive compensation

The information set forth in the Proxy Statement under the caption Compensation Committee Interlocks and Insider Participation, under the caption Executive Compensation, and under the caption Director Compensation is incorporated herein by reference. The information set forth in the Proxy Statement under the caption Compensation Committee Report is also incorporated herein by reference, but pursuant to the Instructions to Item 407(e)(5) of Regulation S-K, such report shall not be deemed to be soliciting material or subject to Regulation 14A, and shall be deemed to be furnished and not filed and will not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 as a result of being so furnished.

Item 12. Security ownership of certain beneficial owners and management and related stockholder matters

The information set forth in the Proxy Statement under the caption Security Ownership of Certain Beneficial Owners, and under the caption Security Ownership of Management is incorporated herein by reference.

Equity Compensation Plan Information

The following table sets forth aggregated information about all of the Company s compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance as of December 31, 2012:

Plan category	*Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)*	*Weighted-average exercise price of outstanding options, warrants and rights (b)*	*Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))[1] (c)*
Equity compensation plans approved by security holders	6,941,885	$ 30.63	7,926,290
Equity compensation plans not approved by security holders			
Total	6,941,885	$ 30.63	7,926,290

[1] The Sonoco Products Company 2012 Long-term Incentive Plan was adopted at the Company s 2012 Annual Meeting of Shareholders. The maximum number of shares of common stock that may be issued under this plan is 10,500,000 shares, subject to certain adjustments. Awards prior to 2012 were granted under a previous plan and so do not reduce the number remaining available under the current plan.

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The weighted-average exercise price of $30.63 relates to stock options and stock appreciation rights, which account for 5,050,740 of the 6,941,885 securities issuable upon exercise. The remaining 1,891,145 securities relate to deferred compensation stock units, performance-contingent restricted stock units and restricted stock unit awards that have no exercise price requirement.

Item 13. Certain relationships and related transactions, and director independence

The information set forth in the Proxy Statement under the captions Related Party Transactions and Corporate Governance Director Independence Policies is incorporated herein by reference. Each current member of the Audit, Corporate Governance and Nominating and Executive Compensation Committees is independent as defined in the listing standards of the New York Stock Exchange.

Item 14. Principal accountant fees and services

The information set forth in the Proxy Statement under the caption Independent Registered Public Accounting Firm is incorporated herein by reference.

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PART IV

Item 15. Exhibits and financial statement schedules

(a) 1. **Financial Statements** The following financial statements are provided under Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K:

Consolidated Balance Sheets as of December 31, 2012 and 2011

Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Comprehensive Income/(Loss) for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

2. **Financial Statement Schedules**

Schedule II Valuation and Qualifying Accounts for the Years Ended December 31, 2012, 2011 and 2010.

Column A	*Column B*	*Column C - Additions*		*Column D*	*Column E*
Description	*Balance at Beginning of Year*	*Charged to Costs and Expenses*	*Charged to Other*	*Deductions*	*Balance at End of Year*
2012					
Allowance for Doubtful Accounts	$ 7,125	$ 2,821	$ 209[1]	$ 2,903[2]	$ 7,252
LIFO Reserve	20,184	(708)[3]			19,476
Valuation Allowance on Deferred Tax Assets	55,713	5,689	609[5]	448[6]	61,563
2011					
Allowance for Doubtful Accounts	$ 8,614	$ 402	$ (216)[1]	$ 1,675[2]	$ 7,125
LIFO Reserve	17,167	3,017[3]			20,184
Valuation Allowance on Deferred Tax Assets	76,860	(19,762)	(1,734)[5]	(349)[6]	55,713
2010					
Allowance for Doubtful Accounts	$ 10,978	$ 1,914	$ (71)[1]	$ 4,207[2]	$ 8,614
LIFO Reserve	19,155	(1,988)[3]			17,167
Valuation Allowance on Deferred Tax Assets	76,540	13,690[4]	(3,532)[5]	9,838[6]	76,860

[1] Includes translation adjustments and other insignificant adjustments.
[2] Includes amounts written off.
[3] Includes adjustments based on pricing and inventory levels.
[4] Includes creation of foreign and domestic deferred tax assets for which no benefit is expected to be realized.
[5] Includes translation adjustments.
[6] Includes utilization of capital loss carryforwards, net operating loss carryforwards and other deferred tax assets.

All other schedules not included have been omitted because they are not required, are not applicable or the required information is given in the financial statements or notes thereto.

3. **Exhibits**

3-1 Articles of Incorporation, as amended (incorporated by reference to the Registrant s Form 8-K filed on February 8, 2012)

3-2 By-Laws, as amended (incorporated by reference to the Registrant s Form 10-Q for the quarter ended July 1, 2012)

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4-1	Indenture, dated as of June 15, 1991, between Registrant and The Bank of New York, as Trustee (incorporated by reference to the Registrant s Form S-4 (File Number 333-119863))
4-2	First Supplemental Indenture, dated as of June 23, 2004, between Registrant and The Bank of New York, as Trustee (including form of 5.625% Notes due 2016)(incorporated by reference to the Registrant s Form 10-Q for the quarter ended June 27, 2004)
4-3	Second Supplemental Indenture, dated as of November 1, 2010, between the Registrant and The Bank of New York Mellon Trust Company, N.A., as Trustee (including form of 5.75% Notes due 2040)(incorporated by reference to Registrant s Form 8-K filed October 28, 2010)
4-4	Form of Note for 6.50% Notes due November 15, 2013 (incorporated by reference to Registrant s Form 10-Q for the quarter ended September 30, 2001)
4-5	Form of Third Supplemental Indenture (including form of 4.375% Notes due 2021), between Sonoco Products Company and the Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Registrant s Form 8-K filed October 27, 2011)
4-6	Form of Fourth Supplemental Indenture (including form of 5.75% Notes due 2040), between Sonoco Products Company and the Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Registrant s Form 8-K filed October 27, 2011)
10-1	1991 Sonoco Products Company Key Employee Stock Plan, as amended (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 30, 2007)
10-2	Sonoco Products Company 1996 Non-employee Directors Stock Plan, as amended (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 30, 2007)
10-3	Sonoco Retirement and Savings Plan (formerly the Sonoco Savings Plan), as amended (incorporated by reference to the Registrant s Form S-8 filed October 28, 2002 (File No. 333-100799)) and further amended January 1, 2013
10-4	Sonoco Products Company 2008 Long-term Incentive Plan (incorporated by reference to the Company s Proxy Statement for the Annual Meeting of Shareholders on April 16, 2008)
10-5	Sonoco Products Company 2012 Long-term Incentive Plan (incorporate by reference to the Company s Proxy Statement for the Annual Meeting of Shareholders on April 18, 2012)
10-6	Deferred Compensation Plan for Key Employees of Sonoco Products Company (a.k.a. Deferred Compensation Plan for Corporate Officers of Sonoco Products Company), as amended (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 28, 2008)
10-7	Omnibus Benefit Restoration Plan of Sonoco Products Company, amended and restated as of January 1, 2008 (incorporated by reference to the Registrant s Form 10-K for the year ended December 31, 2008), further amended April 23, 2009 (incorporated by reference to Form 10-Q for the quarter ended March 29, 2009), further amended February 10, 2010 (incorporated by reference to Form 10-K for the year ended December 31, 2009), and further amended October 2012
10-8	Deferred Compensation Plan for Outside Directors of Sonoco Products Company, as amended (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 28, 2008)
10-9	Performance-based Annual Incentive Plan for Executive Officers (incorporated by reference to the Registrant s Proxy Statement for the April 19, 2000, Annual Meeting of Shareholders)
10-10	Form of Executive Bonus Life Agreement between the Company and certain executive officers (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 26, 2004)
10-11	Term Loan Agreement, effective November 7, 2011 (incorporated by reference to the Registrant s Form 10-K for the year ended December 31, 2011)
10-12	Third Amended and Restated Credit Agreement, effective October 12, 2012 (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 30, 2012)
10-13	Sonoco Products Company Amended and Restated Trust Agreement for Executives, as of October 15, 2008 (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 28, 2008)
10-14	Sonoco Products Company Amended and Restated Directors Deferral Trust Agreement, as of October 15, 2008 (incorporated by reference to the Registrant s Form 10-Q for the quarter ended September 28, 2008)

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10-15	Description of Stock Appreciation Rights and Performance Contingent Restricted Stock Units granted to executive officers of the Registrant on February 9, 2010 (incorporated by reference to Registrant s Form 8-K filed February 16, 2010)
10-16	Description of Stock Appreciation Rights and Performance Contingent Restricted Stock Units granted to executive officers of the Registrant on February 8, 2011 (incorporated by reference to Registrant s Form 8-K filed February 14, 2011)
10-17	Description of Stock Appreciation Rights and Performance Contingent Restricted Stock Units granted to executive officers of the Registrant on February 7, 2012 (incorporated by reference to Registrant s Form 8-K filed February 13, 2012)
10-18	Description of Stock Appreciation Rights and Performance Contingent Restricted Stock Units granted to executive officers of the Registrant on February 12, 2013 (incorporated by reference to Registrant s Form 8-K filed February 19, 2013)
12	Statements regarding Computation of Ratio of Earnings to Fixed Charges
21	Subsidiaries of the Registrant
23	Consent of Independent Registered Public Accounting Firm with respect to Registrant s Form 10-K
31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and 17 C.F.R. 240.13a-14(a)
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and 17 C.F.R. 240.13a-14(b)
99	Proxy Statement, filed in conjunction with annual shareholders meeting scheduled for April 17, 2013 (to be filed within 120 days after December 31, 2012)
101	The following materials from Sonoco Products Company s Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at December 31, 2012 and 2011, (ii) Condensed Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010, (iv) Consolidated Statements of Changes in Total Equity for the years ended December 31, 2012, 2011 and 2010, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010, and (vi) Notes to the Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 1st day of March 2013.

SONOCO PRODUCTS COMPANY

/s/ Harris E. DeLoach Jr.
Harris E. DeLoach, Jr.
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on this 1st day of March 2013.

/s/ Barry L. Saunders
Barry L. Saunders
Vice President and Chief Financial Officer
(principal financial officer)

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/s/ H.E. DeLoach Jr.	Chief Executive Officer and Director (Chairman)
H.E. DeLoach, Jr.	
/s/ M.J. Sanders	President, Chief Operating Officer and Director
M.J. Sanders	
/s/ P.L. Davies	Director
P.L. Davies	
/s/ J.R. Haley	Director
J.R. Haley	
/s/ E.H. Lawton III	Director
E.H. Lawton, III	
/s/ J.E. Linville	Director
J.E. Linville	
/s/ J.M. Micali	Director
J.M. Micali	
/s/ J.H. Mullin III	Director
J.H. Mullin, III	
/s/ L.W. Newton	Director
L.W. Newton	
/s/ M.D. Oken	Director
M.D. Oken	
/s/ P.R. Rollier	Director
P.R. Rollier	
/s/ T.E. Whiddon	Director
T.E. Whiddon	