SONOCO PRODUCTS CO
Form 10-K
March 01, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2012

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______

Commission File No. 001-11261

# SONOCO PRODUCTS COMPANY

| | |
|---|---|
| Incorporated under the laws | I.R.S. Employer Identification |
| of South Carolina | No. 57-0248420 |

1 N. Second St.

Hartsville, SC 29550

Telephone: 843/383-7000

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

| Title of each class | Name of exchange on which registered |
|---|---|
| No par value common stock | New York Stock Exchange, LLC |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

| | | | |
|---|---|---|---|
| Large accelerated filer x | Accelerated filer ¨ | Non-accelerated filer ¨ | Smaller reporting company ¨ |

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

The aggregate market value of voting common stock held by nonaffiliates of the registrant (based on the New York Stock Exchange closing price) on July 1, 2012, which was the last business day of the registrant s most recently completed second fiscal quarter, was $2,922,749,774. Registrant does not (and did not at July 1, 2012) have any non-voting common stock outstanding.

As of February 8, 2013, there were 101,004,010 shares of no par value common stock outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement for the annual meeting of shareholders to be held on April 17, 2013, which statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference in Part III.

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## SONOCO PRODUCTS COMPANY

### Forward-looking statements

Statements included in this Annual Report on Form 10-K that are not historical in nature, are intended to be, and are hereby identified as forward-looking statements for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. The words estimate, project, intend, expect, believe, consider, plan, strategy, opportunity, target, anticipate, objective, goal, guidance, outlook, forecast, future, will, thereof, and similar expressions identify forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding offsetting high raw material costs; improved productivity and cost containment; adequacy of income tax provisions; refinancing of debt; realization of synergies resulting from acquisitions; adequacy of cash flows; anticipated amounts and uses of cash flows; effects of acquisitions and dispositions; adequacy of provisions for environmental liabilities; financial strategies and the results expected from them; sales growth; market leadership; continued payments of dividends; stock repurchases; producing improvements in earnings; financial results for future periods; goodwill impairment charges; expected amounts of capital spending; anticipated contributions to benefit plans; and creation of long-term value for shareholders. Such forward-looking statements are based on current expectations, estimates and projections about our industry, management s beliefs and certain assumptions made by management. Such information includes, without limitation, discussions as to guidance and other estimates, expectations, beliefs, plans, strategies and objectives concerning our future financial and operating performance. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. The risks and uncertainties include, without limitation:

availability and pricing of raw materials;

success of new product development and introduction;

ability to maintain or increase productivity levels and contain or reduce costs;

ability to manage the mix of business to take advantage of growing markets while reducing cyclical effects of some of the Company s existing businesses on operating results;

international, national and local economic and market conditions;

availability of credit to us, our customers and/or suppliers in needed amounts and/or on reasonable terms;

fluctuations in obligations and earnings of pension and postretirement benefit plans;

pricing pressures, demand for products and ability to maintain market share;

continued strength of our paperboard-based tubes and cores and composite can operations;

anticipated results of restructuring activities;

resolution of income tax contingencies;

ability to successfully integrate newly acquired businesses into the Company s operations;

ability to win new business and/or identify and successfully close suitable acquisitions at the levels needed to meet growth targets;

rate of growth in foreign markets;

foreign currency, interest rate and commodity price risk and the effectiveness of related hedges;

actions of government agencies and changes in laws and regulations affecting the Company;

liability for and anticipated costs of environmental remediation actions;

accuracy of assumptions underlying projections related to goodwill impairment testing, and accuracy of management s assessment of goodwill impairment;

- accuracy of assumptions underlying fair value measurements, accuracy of management s assessments of fair value and fluctuations in fair value;
- accuracy in valuation of deferred tax assets;
- loss of consumer or investor confidence; and
- economic disruptions resulting from terrorist activities.

The Company undertakes no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report on Form 10-K might not occur.

## References to our website address

References to our website address and domain names throughout this Annual Report on Form 10-K are for informational purposes only, or to fulfill specific disclosure requirements of the Securities and Exchange Commission s rules or the New York Stock Exchange Listing Standards. These references are not intended to, and do not, incorporate the contents of our websites by reference into this Annual Report on Form 10-K.

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# PART I

## Item 1. Business

### (A) General development of business

The Company is a South Carolina corporation founded in Hartsville, South Carolina, in 1899 as the Southern Novelty Company. The name was subsequently changed to Sonoco Products Company (the Company or Sonoco ). Sonoco is a manufacturer of industrial and consumer packaging products and a provider of packaging services, with 347 locations in 34 countries.

Information about the Company s acquisitions, dispositions, joint ventures and restructuring activities is provided in Notes 3 and 4 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

### (B) Financial information about segments

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. Information about the Company s reportable segments is provided in Note 16 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

### (C) Narrative description of business

Products and Services The following discussion outlines the principal products produced and services provided by the Company.

### Consumer Packaging

The Consumer Packaging segment accounted for approximately 40%, 44% and 44% of the Company s consolidated net sales in 2012, 2011 and 2010, respectively. The operations in this segment consist of 79 plants throughout the world. The products, services and markets of the Consumer Packaging segment are as follows:

| *Products and Services* | *Markets* |
|---|---|
| Round composite cans, shaped rigid paperboard containers, fiber caulk/adhesive tubes, aluminum, steel and peelable membrane easy-open closures for composite and metal cans; plastic bottles, jars, jugs, cups and trays; printed flexible packaging, rotogravure cylinder engraving, global brand management | Snacks, nuts, cookies, crackers, hard-baked goods, desserts, candy, gum, frozen concentrate, powdered and liquid beverages, non-carbonated beverages, ready-to-drink products, powdered infant formula, coffee, refrigerated dough, frozen entrees, processed food, vegetables, fruit, seafood, poultry, soup, pasta, dairy, sauces, dips, fresh-cut produce, pet food, home and personal care, adhesives |

Sonoco s rigid packaging paper-based products is the Company s second largest revenue-producing group of products and services, representing approximately 17%, 19% and 21% of consolidated net sales in 2012, 2011 and 2010, respectively.

### Paper and Industrial Converted Products

The Paper and Industrial Converted Products segment accounted for approximately 38%, 42% and 42% of the Company s consolidated net sales in 2012, 2011 and 2010, respectively. This segment serves its markets through 220 plants on five continents. Sonoco s paper operations provide the primary raw material for the Company s fiber-based packaging. Sonoco uses approximately 56% of the paper it manufactures, and the remainder is sold to third parties. This vertical integration strategy is supported by 20 paper mills with 30 paper machines and 49 recycling facilities throughout the world. In 2012, Sonoco had the capacity to manufacture approximately 1.8 million tons of recycled paperboard. The products, services and markets of the Paper and Industrial Converted Products segment are as follows:

| *Products and Services* | *Markets* |
|---|---|
| Recycled paperboard, chipboard, tubeboard, lightweight corestock, boxboard, linerboard, corrugating medium, specialty grades; paperboard tubes and cores, concrete forms, pallets, molded plugs, reels; collection, processing and recycling of old corrugated containers, paper, plastics, metal, glass and other recyclable materials | Converted paperboard products, spiral winders, beverage insulators, construction, film, flowable products, metal, paper mill, shipping and storage, tape and label, textiles, wire and cable, municipal, residential, customers manufacturing and distribution facilities |

Sonoco s tubes and core products are the Company s largest revenue-producing group of products, representing approximately 24%, 25% and 27% of consolidated net sales in 2012, 2011 and 2010, respectively.

## Display and Packaging

The Display and Packaging segment accounted for approximately 10%, 10% and 11% of the Company s consolidated net sales in 2012, 2011 and 2010, respectively. The products, services and markets of the Display and Packaging segment are as follows:

| *Products and Services* | *Markets* |
|---|---|
| Point-of-purchase displays, custom packaging, fulfillment, primary package filling, supply chain management, paperboard specialties | Automotive, beverages, candy, electronics, personal care, baby care, food, cosmetics, fragrances, hosiery, office supplies, toys, home and garden, medical, over-the-counter drugs, sporting goods, hospitality industry, advertising |

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## Protective Solutions

The Protective Solutions segment accounted for approximately 12%, 4% and 3% of the Company s consolidated net sales in 2012, 2011 and 2010, respectively. The products, services and markets of the Protective Solutions segment are as follows:

| *Products and Services* | *Markets* |
|---|---|
| Highly engineered, custom-designed protective, temperature-assurance and retail security packaging solutions | Consumer electronics, automotive, appliances, medical devices, temperature-sensitive pharmaceuticals and food, heating and air conditioning, office furnishings, fitness equipment, promotional and palletized distribution |

**Product Distribution** Each of the Company s operating units has its own sales staff, and maintains direct sales relationships with its customers. For those customers that buy from more than one business unit, the Company often assigns a single representative or team of specialists to handle that customer s needs. Some of the units have service staff at the manufacturing facility that interacts directly with customers. The Paper and Industrial Converted Products segment also has a customer service center located in Hartsville, South Carolina, which is the main contact point between its North American business units and its customers. Divisional sales personnel also provide sales management, marketing and product development assistance as needed. Typically, product distribution is directly from the manufacturing plant to the customer, but in some cases, product is warehoused in a mutually advantageous location to be shipped to the customer as needed.

**Raw Materials** The principal raw materials used by the Company are recovered paper, paperboard, steel, aluminum and plastic resins. Raw materials are purchased from a number of outside sources. The Company considers the supply and availability of raw materials to be adequate to meet its needs.

**Patents, Trademarks and Related Contracts** Most inventions and product and process innovations are generated by Sonoco s development and engineering staff, and are important to the Company s internal growth. Patents have been granted on many inventions created by Sonoco staff in the United States and other countries. These patents are managed globally by a Sonoco intellectual capital management team through the Company s subsidiary, Sonoco Development, Inc. (SDI). SDI globally manages patents, trade secrets, confidentiality agreements and license agreements. Some patents have been licensed to other manufacturers. Sonoco also licenses a few patents from outside companies and universities. U.S. patents expire after 17 or 20 years, depending on the patent issue date. New patents replace many of the abandoned or expired patents. A second intellectual capital subsidiary of Sonoco, SPC Resources, Inc., globally manages Sonoco s trademarks, service marks, copyrights and Internet domain names. Most of Sonoco s products are marketed worldwide under trademarks such as Sonoco®, Sonotube®, Safe-top®, Sealed-safe®, Duro® and Durox®. Sonoco s registered web domain names such as www.sonoco.com and www.sonotube.com provide information about Sonoco, its people and products. Trademarks and domain names are licensed to outside companies where appropriate.

**Seasonality** The Company s operations are not seasonal to any significant degree, although the Consumer Packaging and Display and Packaging segments normally report slightly higher sales and operating profits in the second half of the year, when compared with the first half.

**Working Capital Practices** The Company is not required to carry any significant amounts of inventory to meet customer requirements or to assure itself continuous allotment of goods.

**Dependence on Customers** On an aggregate basis during 2012, the five largest customers in the Paper and Industrial Converted Products segment, the Consumer Packaging segment and the Protective Solutions segment accounted for approximately 7%, 33% and 22%, respectively, of each segment s net sales. The dependence on a few customers in the Display and Packaging segment is more significant, as the five largest customers in this segment accounted for approximately 64% of that segment s sales.

Sales to the Company s largest customer represented approximately 9% of consolidated revenues in 2012. This concentration of sales volume resulted in a corresponding concentration of credit, representing approximately 8% of the Company s consolidated trade accounts receivable at December 31, 2012. The Company s next largest customer comprised approximately 5% of the Company s consolidated revenues for the year ended December 31, 2012.

**Backlog** Most customer orders are manufactured with a lead time of three weeks or less. Therefore, the amount of backlog orders at December 31, 2012, was not material. The Company expects all backlog orders at December 31, 2012, to be shipped during 2013.

**Competition** The Company sells its products in highly competitive markets, which include paper, textile, film, food, chemical, packaging, construction, and wire and cable. All of these markets are influenced by the overall rate of economic activity and their behavior is principally driven by supply and demand. Because we operate in highly competitive markets, we regularly bid for new and continuing business. Losses and/or awards of business from our largest customers, customer changes to alternative forms of packaging, and the repricing of business, can have a significant effect on our operating results. The Company manufactures and sells many of its products globally. The Company, having operated internationally since 1923, considers its ability to serve its customers worldwide in a timely and consistent manner a competitive advantage. The Company also believes that its technological leadership, reputation for quality, and vertical integration are competitive advantages. Expansion of the Company s product lines and global presence is driven by the rapidly changing needs of its major customers, who demand high-quality, state-of-the-art, environmentally compatible packaging, wherever they choose to do business. It is important to be a low-cost producer in order to compete effectively. The Company is constantly focused on productivity improvements and other cost-reduction initiatives utilizing the latest in technology.

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**Research and Development** Company-sponsored research and development expenses totaled approximately $20.2 million in 2012, $18.8 million in 2011 and $17.8 million in 2010. Customer-sponsored research and development expenses were not material in any of these periods. Significant projects in Sonoco s Consumer Packaging segment include a broad range of cost-reduction projects, high-value flexible packaging enhancements, rigid plastic containers technology and next-generation composite packaging. During 2012, the Paper and Industrial Converted Products segment continued to invest in efforts to design and develop new products for the construction industry and for the film and tape industries. In addition, efforts were focused on enhancing performance characteristics of the Company s tubes and cores in the textile, film and paper packaging areas, as well as on projects aimed at enhancing productivity. Research and development projects in the Company s Protective Solutions segment were primarily focused on developing new temperature-assurance solutions for the pharmaceuticals market.

**Compliance with Environmental Laws** Information regarding compliance with environmental laws is provided in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Risk Management, and in Note 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

**Number of Employees** Sonoco had approximately 19,900 employees worldwide as of December 31, 2012.

## (D) Financial information about

## geographic areas

Financial information about geographic areas is provided in Note 16 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, and in the information about market risk in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Risk Management of this Annual Report on Form 10-K.

## (E) Available information

The Company electronically files with the Securities and Exchange Commission (SEC) its annual reports on Form 10-K, its quarterly reports on Form 10-Q, its periodic reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 (the 1934 Act ), and proxy materials pursuant to Section 14 of the 1934 Act. The SEC maintains a site on the Internet, *www.sec.gov*, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Sonoco also makes its filings available, free of charge, through its website, *www.sonoco.com*, as soon as reasonably practical after the electronic filing of such material with the SEC.

## Executive Officers of the Registrant

| *Name* | *Age* | *Position and Business Experience for the Past Five Years* |
|---|---|---|
| **Executive Committee** | | |
| Harris E. DeLoach Jr. | 68 | Chairman of the Board & Chief Executive Officer since 2010. Previously Chairman of the Board, President & Chief Executive Officer 2005-2010; President & Chief Executive Officer 2000-2005; Chief Operating Officer April-July 2000; Sr. Executive Vice President, Global Industrial Products/ Paper/Molded Plastics 1999-2000. Joined Sonoco in 1985. (Retiring as Chief Executive Officer effective March 31, 2013). |
| M. Jack Sanders | 59 | President, Chief Operating Officer and Chief Executive Officer-elect since December 2012. Previously President and Chief Operating Officer 2010-2012; Executive Vice President, Consumer January-December 2010; Executive Vice President, Industrial 2008-2010; Sr. Vice President, Global Industrial Products 2006-2008; Vice President, Global Industrial Products January-October 2006; Vice President, Industrial Products, N.A. 2001-2006. Joined Sonoco in 1987. |
| Vicki B. Arthur | 54 | Vice President, Protective Solutions since January 2013. Previously Vice President, Protective Packaging, N.A. & Integration Leader 2012-2013; Vice President Global Corporate Accounts 2008-2012; Division Vice President, Global Corporate Accounts 2007-2008; Division Vice President & General Manager-Kraft 2005-2007; Staff Vice President & Treasurer 2002-2005. Joined Sonoco in 1984. |
| R. Howard Coker | 50 | Group Vice President, Global Rigid Paper & Plastics since January 2013. Previously Vice President, Global Rigid Paper & Closures 2011-2013; Vice President & General Manager, Rigid Paper & Closures, N.A. 2009-2011; Division Vice President & General Manager, Rigid Paper & Closures 2008-2009; Division Vice President & General Manager, Sonoco Phoenix 2006-2008; Director of Sales 2002-2005. Joined Sonoco in 1985. |

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| *Name* | *Age* | *Position and Business Experience for the Past Five Years* |
|---|---|---|
| John M. Colyer Jr | 52 | Sr. Vice President, Global Industrial Products & Protective Solutions since January 2013. Previously Vice President, Global Paper & Industrial Converted Products 2012-2013; Vice President, Global Industrial Converting 2010-2012; Vice President North American Converted Products 2009-2010; Vice President, Industrial Converted Products N.A. 2008-2009; Division Vice President & General Manager, Industrial Products, N.A. 2006-2008; Division Vice President, Manufacturing, Industrial Products 2004-2006. Joined Sonoco in 1983. |
| Rodger D. Fuller | 51 | Group Vice President, Paper/Tubes and Cores N.A. since January 2013. Previously Vice President, Global Rigid Plastics & Corporate Customers 2011-2013; Vice President, Global Rigid Paper & Plastics January-October 2011; Vice President, Global Rigid Paper & Closures 2008-2011; Vice President, Rigid Paper & Plastics N.A. 2005-2008; Division Vice President & General Manager, Consumer Products N.A. 2000-2005. Joined Sonoco in 1985. |
| Ronald G. Leach | 55 | Vice President, Global Protective Packaging since November 2011. Previously President & Chief Executive Officer, Tegrant Corporation 2007-2011; President, SCA Packaging N.A. 2003-2007; President and Chief Executive Officer, Alloyd Company, Inc., 2002-2003. Joined Sonoco in November 2011. (Retiring effective March 31, 2013). |
| Allan H. McLeland | 46 | Vice President, Human Resources since 2011. Previously Staff Vice President, Human Resources, Industrial 2010-2011; Director of Human Resources, Industrial 2009-2010; Director, Talent Management 2006-2009; Director, Organizational Development & Staffing 2002-2006. Joined Sonoco in 1993. |
| Marty F. Pignone | 56 | Vice President, Primary Materials Group N.A. since December 2012. Previously Vice President, Global Operating Excellence 2011-2012; Vice President, Global Manufacturing, Industrial 2008-2011; Vice President, Paper N.A. 2005-2008. Joined Sonoco in 1997. |
| Barry L. Saunders | 53 | Vice President & Chief Financial Officer since May 2011. Previously Vice President & Corporate Controller & Chief Accounting Officer 2008-2011; Staff Vice President & Corporate Controller & Chief Accounting Officer 2002-2008. Joined Sonoco in 1989. |
| Robert C. Tiede | 54 | Sr. Vice President, Global Consumer Packaging & Services since January 2013. Previously Vice President Global Flexibles & Packaging Services 2009-2013; Division Vice President & General Manager, Flexible Packaging 2007-2009; President Sonoco-CorrFlex 2004-2007. Joined Sonoco in 2004. |
| **Other Corporate Officers** | | |
| Ritchie L. Bond | 56 | Vice President, Treasurer & Corporate Secretary since 2011. Previously Staff Vice President, Treasurer & Corporate Secretary 2009-2011; Staff Vice President & Treasurer 2005-2009. Joined Sonoco in 2005. |
| James A. Harrell III | 51 | Vice President, Tubes & Cores N.A. since 2010. Previously Vice President & General Manager, Industrial Converted Products 2009-2010; Division Vice President & General Manager, Paper, N.A. 2008-2009; Staff Vice President, Global Operating Excellence, Industrial Products 2007-2008; Division Vice President, Industrial Products/ Paper, Europe 2002-2007. Joined Sonoco in 1985. |
| Kevin P. Mahoney | 57 | Sr. Vice President, Corporate Planning since 2011. Previously Vice President, Corporate Planning 2000-2011. Joined Sonoco in 1987. |
| Robert L. Puechl | 57 | Vice President, Global Flexible Packaging since 2011. Previously Vice President, Global Rigid Plastics 2010-2011; Division Vice President & General Manager, Molded Plastics 2008-2010; Division Vice President & General Manager, Molded Plastics & Caulk 2002-2008. Joined Sonoco in 1986. |

| *Name* | *Age* | *Position and Business Experience for the Past Five Years* |
|---|---|---|
| Roger P. Schrum | 57 | Vice President, Investor Relations & Corporate Affairs since 2009. Previously Staff Vice President, Investor Relations & Corporate Affairs 2005-2009. Joined Sonoco in 2005. |
| Marcy J. Thompson | 51 | Vice President, Rigid Paper N.A. since 2011. Previously Division Vice President and General Manager, Sonoco Recycling, Inc. 2009-2011; Division Vice President and General Manager, Industrial Products Division, N.A. 2008-2009; Division Vice President, Sales and Marketing, Industrial, N.A. 2006-2009. Joined Sonoco in 2006. |

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## Item 1A. Risk factors

### Risk factors relating to Sonoco s business

### The Company is subject to environmental regulations and liabilities that could weaken operating results.

Federal, state, provincial, foreign and local environmental requirements, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), and particularly those relating to air and water quality, are significant factors in the Company s business and generally increase its costs of operations. The Company may be found to have environmental liability for the costs of remediating soil or water that is, or was, contaminated by the Company or a third party at various sites that are now, or were previously, owned, used or operated by the Company. Legal proceedings may result in the imposition of fines or penalties, as well as mandated remediation programs that require substantial, and in some instances, unplanned capital expenditures.

The Company has incurred in the past, and may incur in the future, fines, penalties and legal costs relating to environmental matters, and costs relating to the damage of natural resources, lost property values and toxic tort claims. The Company has made expenditures to comply with environmental regulations and expects to make additional expenditures in the future. As of December 31, 2012, approximately $75.6 million was reserved for environmental liabilities. Such reserves are established when it is considered probable that the Company has some liability. In part because nearly all of the Company s potential environmental liabilities are joint and severally shared with others, the Company s maximum potential liability cannot be reasonably estimated. However, the Company s actual liability in such cases may be substantially higher than the reserved amount. Additional charges could be incurred due to changes in law, or the discovery of new information, and those charges could have a material adverse effect on operating results.

Changes to laws and regulations dealing with environmental issues, including climate change, are made or proposed with some frequency and some of the proposals, if adopted, might, directly or indirectly, result in a material reduction in the operating results of one or more of the Company s operating units.

### General economic conditions in the United States may change, having a negative impact on the Company s earnings.

Domestic sales accounted for approximately 66% of the Company s consolidated revenues in 2012. Even with the Company s diversification across various markets and customers, due to the nature of the Company s products and services, general economic downturns can have an adverse impact on the Company s reported results.

### Conditions in foreign countries where the Company operates may reduce earnings.

The Company has operations throughout North and South America, Europe, Australia and Asia, with 347 facilities in 34 countries. In 2012, approximately 34% of consolidated sales came from operations and sales outside of the United States. Accordingly, economic conditions, political situations, and changing laws and regulations in those countries may adversely affect revenues and income.

### Raw materials price increases may reduce net income.

Most of the raw materials the Company uses are purchased from third parties. Principal examples are recovered paper, steel, aluminum and resin. Prices for these raw materials are subject to substantial fluctuations that are beyond the Company s control and can adversely affect profitability. Many of the Company s long-term contracts with customers permit limited price adjustments to reflect increased raw material costs. Although both contractual and noncontractual prices may be increased in an effort to offset increases in raw materials costs, such adjustments may not occur quickly enough, or be sufficient to prevent a materially adverse effect on net income and cash flow.

### The Company may encounter difficulties integrating acquisitions, restructuring operations or closing or disposing of facilities.

The Company has made numerous acquisitions in recent years, and may actively seek new acquisitions that management believes will provide meaningful opportunities in the markets it serves. Acquired businesses may not achieve the expected levels of revenue, profit or productivity, or otherwise perform as expected.

Acquisitions also involve special risks, including, without limitation, the potential assumption of unanticipated liabilities and contingencies, and difficulties in integrating acquired businesses. While management believes that acquisitions will improve the Company s competitiveness and profitability, no assurance can be given that acquisitions will be successful or accretive to earnings. If actual performance in an acquisition falls significantly short of the projected results, or the assessment of the relevant facts and circumstances changes, it is possible that a noncash impairment charge of any related goodwill would be required.

The Company has closed higher-cost facilities, sold non-core assets and otherwise restructured operations in an effort to improve cost competitiveness and profitability. Some of these activities are ongoing, and there is no guarantee that any such activities will achieve the Company s goals and not divert the attention of management or disrupt the ordinary operations of the Company. Moreover, production capacity, or the actual amount of products produced, may be reduced as a result of these activities.

### Energy price increases may reduce net income.

Some of the Company s manufacturing operations require the use of substantial amounts of electricity and natural gas, which may be subject to significant price increases as the result of changes in overall supply and demand. Energy usage is forecasted and monitored, and the Company may, from time to time, use commodity futures or swaps in an attempt to reduce the impact of energy price increases. The Company cannot guarantee success in these efforts, and could suffer adverse effects to net income and cash flow should the Company be unable to pass higher energy costs through to its customers.

### Changes in pension plan assets or liabilities may reduce net income and shareholders equity.

The Company has an aggregate projected benefit obligation for its defined benefit plans of approximately $1.8 billion. The calculation of this obligation is sensitive to the underlying discount rate assumption. Reductions in the long-term yield of high-quality debt instruments would result in a higher projected benefit obligation and higher net periodic benefit cost. A higher projected benefit obligation may result in a change in funded status that significantly reduces shareholders equity. The Company has total assets of approximately $1.3 billion funding a portion of the projected benefit obligation. Decreases in fair value of these assets may result in higher net periodic benefit costs and changes in the funded status that significantly reduce shareholders equity.

### The Company may not be able to develop new products acceptable to the market.

For many of the Company s businesses, organic growth depends meaningfully on new product development. If new products acceptable to the Company s customers are not developed in a timely fashion, its growth potential may be hindered.

### The Company may not be able to locate suitable acquisition candidates.

If significant acquisition candidates that meet the Company s specific criteria are not located, the Company s potential for growth may be restricted.

### The Company, or its customers, may not be able to obtain necessary credit or, if so, on reasonable terms.

The Company operates a $350 million commercial paper program, supported by a five-year bank credit facility of an equal amount committed by a syndicate of eight banks until October 2017. In the event that disruptions in global credit markets were to become so severe that the Company was unable to issue commercial paper, it has the contractual right to draw funds directly on the underlying bank credit facility. The Company believes that the lenders have the ability to meet their obligations under the facility. However, if these obligations are not met, the Company may be forced to seek more costly or cumbersome forms of credit. Should such credit be unavailable for an extended time, it would significantly affect the Company s ability to operate its business and execute its plans. In addition, the Company s customers may experience liquidity problems as a result of the current economic environment that could negatively affect the Company s ability to collect receivables and maintain business relationships.

### Foreign exchange rate fluctuations may reduce the Company s earnings.

As a result of operating globally, the Company is exposed to changes in foreign exchange rates. Generally, each of the Company s foreign operations both produces and sells in its respective local currency, limiting the Company s exposure to foreign currency transactions. The Company monitors its exposures and, from time to time, may use forward currency contracts to hedge certain forecasted currency transactions or foreign currency denominated assets and liabilities. In addition to potential transaction losses, the Company s reported results of operations and financial position could be negatively affected by exchange rates when the activities and balances of its foreign operations are translated into U.S. dollars for financial reporting purposes.

### The Company is subject to cyber-security risks related to certain customer, employee, vendor and other Company data.

The Company uses information technologies to securely manage operations and various business functions and relies upon various technologies to process, store and report on its business and to interact with customers, vendors and employees. Despite its security design and controls, and those of its third party providers, the Company could become subject to cyber attacks which could result in operational disruptions or the misappropriation of sensitive data. There can be no assurance that such disruptions or misappropriations and the resulting repercussions would not be material to its results of operations, financial condition or cash flows.

## Item 1B. Unresolved staff comments

There are no unresolved written comments from the SEC staff regarding the Company s periodic or current 1934 Act reports.

## Item 2. Properties

The Company s corporate offices are owned and operated in Hartsville, South Carolina. There are 102 owned and 85 leased facilities used by operations in the Paper and Industrial Converted Products segment, 33 owned and 46 leased facilities used by operations in the Consumer Packaging segment, four owned and 16 leased facilities used by operations in the Display and Packaging segment, and 12 owned and 34 leased facilities used by the Protective Solutions segment. Europe, the most significant foreign geographic region in which the Company operates, has 51 manufacturing locations.

## Item 3. Legal proceedings

The Company has been named as a potentially responsible party (PRP) at several environmentally contaminated sites not owned by the Company. All of the sites are also the responsibility of other parties. The Company s liability, if any, is shared with such other parties, but the Company s share has not been finally determined in most cases. In some cases, the Company has cost-sharing agreements with other PRPs with respect to a particular site. Such agreements relate to the sharing of legal defense costs or cleanup costs, or both. The Company has assumed, for purposes of estimating amounts to be accrued, that the other parties to such cost-sharing agreements will perform as agreed. It appears that final resolution of some of the sites is years away, and actual costs to be incurred for these environmental matters in future periods is likely to vary from current estimates because of the inherent uncertainties in evaluating environmental exposures. Accordingly, the ultimate cost to the Company with respect to such sites cannot be determined. As of December 31, 2012 and 2011, the Company had accrued $75.6 million and $78.6 million, respectively, related to environmental contingencies. The Company periodically re-evaluates the assumptions used in determining the appropriate reserves for environmental matters as additional information becomes available and, when warranted, makes appropriate adjustments.

### Fox River

The Company believes the environmental issues regarding the Fox River, which are discussed below in some detail, currently represent the Company s greatest loss exposure for alleged environmental liability. The Company also believes that all of its exposure to such liability for the Fox River is contained within its wholly owned subsidiary, U.S. Paper Mills Corp. (U.S. Mills). Accordingly, regardless of the amount of liability that U.S. Mills may ultimately bear, the Company believes its maximum additional pretax loss for Fox River issues will essentially be limited to the equity position of U.S. Mills, which was approximately $91 million at December 31, 2012.

The extent of U.S. Mills potential liability remains subject to many uncertainties. The Company periodically re-evaluates U.S. Mills potential liability and the appropriate reserves based on information available to it. U.S. Mills eventual liability, which may be paid out over several years, will depend on a number of factors. In general, the most significant factors include: (1) the total remediation costs for the sites for which U.S. Mills is found to have liability and the share of such costs U.S. Mills is required to bear; (2) the total natural resource damages for such sites and the share of such costs U.S. Mills is required to bear; and (3) U.S. Mills costs to defend itself in this matter.

U.S. Mills was officially notified by governmental entities in 2003 that it, together with a number of other companies, had been identified as a PRP for environmental claims under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) and other statutes, arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the bay of Green Bay in Wisconsin. U.S. Mills was named as a PRP because scrap paper purchased by U.S. Mills as a raw material for its paper making processes more than 30 years before allegedly included carbonless copy paper that contained PCBs, some of which were included in wastewater from U.S. Mills manufacturing processes that was discharged into the Fox River. The Company acquired the stock of U.S. Mills in 2001, and the alleged contamination predates the acquisition. Although Sonoco was also notified that it was a PRP, its only involvement is as a subsequent shareholder of U.S. Mills. As such, the Company has responded that it has no separate responsibility apart from U.S. Mills.

The governmental entities making such claims against U.S. Mills and the other PRPs have been coordinating their actions, including the assertion of claims against the PRPs. Additionally, certain claimants have commenced a related natural resource damage lawsuit against U.S. Mills and the other PRPs.

A review of the circumstances leading to U.S. Mills being named a PRP and the current status of the remediation effort and related lawsuits is set forth below.

In July 2003, the U.S. Environmental Protection Agency (EPA) and Wisconsin Department of Natural Resources (WDNR) issued their final cleanup plan (known as a Record of Decision, or ROD) for a portion of the Fox River. The ROD addressed the lower part of the Fox River and portions of Green Bay, where the EPA and WDNR (the Governments) estimate the bulk of the sediments that need to be remediated are located. In two portions of the lower part of the Fox River covered by the ROD Operable Units (OUs) 3 and 4 the Governments selected large-scale dredging as the cleanup approach. OU 3 is the section of the Fox River running downstream from Little Rapids to the De Pere dam, and OU 4 runs from the De Pere dam downstream to the mouth of the Fox River at Green Bay. U.S. Mills De Pere plant is just below the De Pere dam and, prior to 1972, discharged wastewater into the river downstream of the dam in OU 4. In the ROD, the Governments estimated that approximately 6.5 million cubic yards of sediment would be removed from OUs 3 and 4 at an estimated cost of approximately $284 million ($26.5 million for OU 3 and $257.5 million for OU 4). The Governments also identified capping the riverbed with appropriate materials as a contingent remedy to be evaluated during the remedial design process. For Green Bay (OU 5), the Governments selected monitored natural attenuation as the cleanup approach at an estimated cost of approximately $40 million. The Governments also indicated that some limited dredging near the mouth of the river might be required, which would ultimately be determined during the design stage of the project. Earlier, in January 2003, the Governments had issued their ROD for the upper portions of the Fox River OUs 1 and 2. Combining the then current cost estimates from both RODs, it appeared that the Governments expected the selected remedies for all five OUs to cost approximately $400 million, exclusive of contingencies. In March 2004, NCR Corporation (NCR) and Georgia-Pacific Corporation (G-P) entered into an Administrative Order on Consent (AOC) with the Governments to perform engineering design work for the cleanup of OUs 2 5.

In the course of the ongoing design work, additional sampling and data analysis identified elevated levels of PCBs in certain areas of OU 4 near the U.S. Mills De Pere plant (the OU 4 hotspot). In November 2005, the Governments notified U.S. Mills and NCR that they would be required to design and undertake a removal action that would involve dredging, dewatering and disposing of the PCB-contaminated sediments from the OU 4 hotspot. In furtherance of this notification, on April 12, 2006, the United States and the State of Wisconsin sued NCR and U.S. Mills in the U.S. District Court for the Eastern District of Wisconsin in Milwaukee (Civil Action No. 06-C-0484). NCR and U.S. Mills agreed to a Consent Decree with the United States and the State of Wisconsin pursuant to which the site is to be cleaned up on an expedited basis and NCR and U.S. Mills started removing contaminated sediment in May 2007. Although the defendants specifically did not admit liability for the allegations of the complaint, they are bound by the terms of the Consent Decree.

NCR and U.S. Mills reached agreement between themselves that each would fund 50% of the costs of remediation of the OU 4 hotspot, which from 2006, when project implementation began, through the end of 2012 has totalled slightly more than $25 million. U.S. Mills environmental reserve at December 31, 2012, includes $3.2 million for its share of the estimated remaining costs under the funding agreement for remediation of the OU 4 hotspot. The actual

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costs associated with cleanup of this particular site are dependent upon many factors, and it is reasonably possible that remediation costs could be higher than the current estimate of project costs. Under the terms of the agreement, the parties reserved their rights to make claims against each other, as well as third parties, to reallocate the remediation costs of the Site. Accordingly, the Company s ultimate share of the liability for remediation of the Site could be greater or less than 50% of the total cost.

At the time of the Company s acquisition of U.S. Mills in 2001, U.S. Mills and the Company estimated U.S. Mills liability for the Fox River cleanup at a nominal amount based on government reports and conversations with the Governments about the anticipated limited extent of U.S. Mills responsibility, the belief, based on U.S. Mills prior assertions, that no significant amount of PCB-contaminated raw materials had been used at the U.S. Mills plants, and the belief that any PCB contamination in the Fox River, other than a de minimis amount, was not caused by U.S. Mills. It appeared at that time that U.S. Mills and the Governments would be able to resolve the matter and dismiss U.S. Mills as a PRP for a nominal payment. Accordingly, no significant reserve was established at the time. However, the Governments subsequently declined to enter into such a settlement. Nonetheless, U.S. Mills continued to believe that its liability exposure was very small based on its continuing beliefs that no significant amount of PCB-contaminated raw materials had been used at the U.S. Mills plants and that any significant amount of PCB contamination in the section of the Fox River located adjacent to its plant was not caused by U.S. Mills.

In May/June 2005, U.S. Mills first learned of elevated levels of PCBs in the Fox River adjacent to its De Pere plant (the OU 4 hotspot). U.S. Mills, while still not believing its De Pere plant was the source of this contamination, entered into the consent decree to remediate the OU 4 hotspot as discussed above.

In June 2006, U.S. Mills first received the results of tests it initiated on the U.S. Mills property that suggested that the De Pere plant may have processed as part of its furnish more than the de minimis amounts of PCB-contaminated paper reflected in the records available to the Company. This information seemed to contradict the Company s previous understanding of the history of the De Pere plant. Based on these most recent findings, it is possible that U.S. Mills might be responsible for a larger portion of the remediation than previously anticipated. The total estimated cost set forth in the ROD for remediation of OU 4 was approximately $257.5 million and the estimated cost of monitoring OU 5 was approximately $40 million (a 2007 amendment to the ROD estimated the cost of OUs 2 5 at $390 million). There are two alleged PRPs located in OU 4 (of which the smaller is the plant owned by U.S. Mills). It is possible that U.S. Mills and the owners of the other plant, together with NCR, the original generator of the carbonless copy paper, could be required to bear a majority of the remediation costs of OU 4, and share with other PRPs the cost of monitoring OU 5. U.S. Mills has discussed possible remediation scenarios with other PRPs who have indicated that they expect U.S. Mills to bear an unspecified but meaningful share of the costs of OU 4 and OU 5.

In February 2007, the EPA and WDNR issued a general notice of potential liability under CERCLA and a request to participate in remedial action implementation negotiations relating to OUs 2 5 to eight PRPs, including U.S. Mills. The notice requested that the PRPs indicate their willingness to participate in negotiations concerning performance of the remaining elements of the remedial action for OUs 2 5 and the resolution of the government entities claims for unreimbursed costs and natural resource damages. On April 9, 2007, U.S. Mills, in conjunction with other PRPs, presented to the EPA and the WDNR a proposed schedule to mediate the allocation issues among eight PRPs, 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 cleanup OUs 2 5. The order covers planning and design work as well as dredging and disposing of contaminated sediments and the capping of dredged and less contaminated areas of the river bottom. The order also provides for a $32.5 thousand 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. Even though 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 order, although its financial contribution will likely be determined by the lawsuit commenced in June 2008 and discussed below.

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. The court limited discovery to information regarding when each party knew, or should have known, that recycling NCR brand carbonless paper would result in the discharge of PCBs to a water body and what action, if any, each party took to avoid the risk of further contamination. 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. U.S. Mills plans to continue to defend the suit vigorously.

On October 14, 2010, the United States and the State of Wisconsin 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 above. The Company does not believe that the remedies sought in the suit materially expand the Company s potential liability beyond what has been previously disclosed in this report or in the Company s prior filings. 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.

As of December 31, 2012, U.S. Mills environmental reserve for potential liabilities associated with the remediation of OUs 2 5 (not including amounts accrued for remediation of the OU 4 hotspot) totaled $50.8 million. 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 pretax exposure to its consolidated financial position is limited to the equity position of U.S. Mills, which was approximately $91 million at December 31, 2012.

The actual costs associated with cleanup of the Fox River site are dependent upon many factors, and it is reasonably possible that total remediation costs could be higher than the current estimates of project costs, which range from $390 million to more than $600 million for OUs 2 5. Some, or all, of any costs incurred by U.S. Mills may be subject to recoupment from other parties, but no amounts have been recognized in the financial statements of the Company for any such potential recoveries. Given the ongoing remedial design work being conducted, and the initial stages of remediation, it is possible there could be some additional changes to some elements of the reserve within the next year or thereafter, although that is difficult to predict.

Similarly, U.S. Mills does not have a basis for estimating the possible cost of any natural resource damage claims against it. Accordingly, reserves have not been provided for this potential liability. However, for the entire river remediation project, the lowest estimate in the Governments 2000 report on natural resource damages was $176 million. Nevertheless, the court has ruled, subject to appeal, that natural resource damages are recoverable by U.S. Mills and other PRPs from NCR.

In addition to its potential liability for OUs 4 and 5, U.S. Mills may have a contingent liability to Menasha Corporation to indemnify it for any amount for which it may be held liable in excess of insurance coverage for any environmental liabilities of a plant on OU 1 that U.S. Mills purchased from Menasha. Due to the uncertainty of Menasha s liability and the extent of the insurance coverage as well as any defenses that may be asserted to any such claim, U.S. Mills has not established a reserve for this contingency.

## Other legal matters

Additional information regarding legal proceedings is provided in Note 14 to the Consolidated Financial Statements of this Annual Report on Form 10-K.

## Item 4. Mine safety disclosures

Not applicable.

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# PART II

## Item 5. Market for registrant s common equity, related stockholder matters and issuer purchases of equity securities

The Company s common stock is traded on the New York Stock Exchange under the stock symbol SON. As of December 31, 2012, there were approximately 50,000 shareholder accounts. Information required by Item 201(d) of Regulation S-K can be found in Part III, Item 12 of this Annual Report on Form 10-K. The following table indicates the high and low sales prices of the Company s common stock for each full quarterly period within the last two years as reported on the New York Stock Exchange, as well as cash dividends declared per common share:

| | *High* | *Low* | *Cash Dividends* |
|---|---|---|---|
| **2012** | | | |
| First Quarter | $ 34.83 | $ 31.02 | $ .29 |
| Second Quarter | $ 33.91 | $ 29.57 | $ .30 |
| Third Quarter | $ 31.67 | $ 28.61 | $ .30 |
| Fourth Quarter | $ 32.51 | $ 29.00 | $ .30 |
| **2011** | | | |
| First Quarter | $ 36.89 | $ 33.96 | $ .28 |
| Second Quarter | $ 36.95 | $ 32.71 | $ .29 |
| Third Quarter | $ 36.05 | $ 27.62 | $ .29 |
| Fourth Quarter | $ 33.64 | $ 26.10 | $ .29 |

The Company made the following purchases of its securities during the fourth quarter of 2012:

## Issuer purchases of equity securities

| *Period* | *(a) Total Number of Shares Purchased*[1] | *(b) Average Price Paid per Share* | *(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*[2] | *(d) Maximum Number of Shares that May Yet be Purchased under the Plans or Programs*[2] |
|---|---|---|---|---|
| 10/01/12 11/04/12 | 22,150 | $ 32.66 | | 5,000,000 |
| 11/05/12 12/02/12 | 38 | $ 29.15 | | 5,000,000 |
| 12/03/12 12/31/12 | 170 | $ 29.72 | | 5,000,000 |
| Total | 22,358 | $ 32.64 | | 5,000,000 |

1 A total of 22,358 common shares were repurchased in the fourth quarter of 2012 related to shares withheld to satisfy employee tax withholding obligations in association with the exercise of certain share-based compensation awards. These shares were not repurchased as part of a publicly announced plan or program.

2 On April 19, 2006, the Company s Board of Directors authorized the repurchase of up to 5,000,000 shares of the Company s common stock. This authorization rescinded all previous existing authorizations and does not have a specific expiration date. From December 2010 through March 2011, a total of 2,000,000 shares were repurchased under this program. On April 20, 2011, the Company s Board of Directors reinstated 2,000,000 shares to its authorization, returning the total number of shares available for future repurchase to 5,000,000 as of that date. No shares were repurchased under this authorization subsequent to this reinstatement; accordingly, a total of 5,000,000 shares remained available for repurchase at December 31, 2012.

The Company did not make any unregistered sales of its securities during 2012.

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## Item 6. Selected financial data

The following table sets forth the Company s selected consolidated financial information for the past five years. The information presented below should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Annual Report on Form 10-K and the Company s historical Consolidated Financial Statements and the Notes thereto included in Item 8 of this Annual Report on Form 10-K. The selected statement of income data and balance sheet data are derived from the Company s Consolidated Financial Statements.

| | Years ended December 31 | | | | |
|---|---|---|---|---|---|
| *(Dollars and shares in thousands except per share data)* | *2012* | *2011* | *2010* | *2009* | *2008* |
| **Operating Results** | | | | | |
| Net sales | **$ 4,786,129** | $ 4,498,932 | $ 4,124,121 | $ 3,597,331 | $ 4,122,385 |
| Cost of sales and operating expenses | **4,406,212** | 4,139,626 | 3,761,945 | 3,317,744 | 3,772,751 |
| Restructuring/Asset impairment charges | **32,858** | 36,826 | 23,999 | 26,801 | 100,061 |
| Interest expense | **64,114** | 41,832 | 37,413 | 40,992 | 53,401 |
| Interest income | **(4,129)** | (3,758) | (2,307) | (2,427) | (6,204) |
| Loss from the early extinguishment of debt | | | 48,617 | | |
| Income before income taxes | **287,074** | 284,406 | 254,454 | 214,221 | 202,376 |
| Provision for income taxes | **103,759** | 78,423 | 64,485 | 66,818 | 54,797 |
| Equity in earnings of affiliates, net of tax | **(12,805)** | (12,061) | (11,505) | (7,742) | (9,679) |
| Net income | **196,120** | 218,044 | 201,474 | 155,145 | 157,258 |
| Net (income)/loss attributable to noncontrolling interests | **(110)** | (527) | (421) | (3,663) | 7,350 |
| Net income attributable to Sonoco | **$ 196,010** | $ 217,517 | $ 201,053 | $ 151,482 | $ 164,608 |
| Per common share | | | | | |
| Net income attributable to Sonoco: | | | | | |
| Basic | **$ 1.93** | $ 2.15 | $ 1.98 | $ 1.50 | $ 1.64 |
| Diluted | **1.91** | 2.13 | 1.96 | 1.50 | 1.63 |
| Cash dividends | **1.19** | 1.15 | 1.11 | 1.08 | 1.07 |
| Weighted average common shares outstanding: | | | | | |
| Basic | **101,804** | 101,071 | 101,599 | 100,780 | 100,321 |
| Diluted | **102,573** | 102,173 | 102,543 | 101,029 | 100,986 |
| Actual common shares outstanding at December 31 | **100,847** | 100,211 | 100,510 | 100,149 | 99,732 |
| **Financial Position** | | | | | |
| Net working capital | **$ 455,661** | $ 467,958 | $ 376,867 | $ 190,934 | $ 231,794 |
| Property, plant and equipment, net | **1,034,906** | 1,013,622 | 944,136 | 926,829 | 973,442 |
| Total assets | **4,176,065** | 3,992,799 | 3,281,014 | 3,062,580 | 3,086,466 |
| Long-term debt | **1,099,454** | 1,232,966 | 603,941 | 462,743 | 656,847 |
| Total debt | **1,373,062** | 1,286,632 | 620,890 | 580,796 | 689,825 |
| Total equity | **1,503,214** | 1,425,408 | 1,507,693 | 1,380,630 | 1,174,518 |
| Current ratio | **1.4** | 1.6 | 1.5 | 1.2 | 1.3 |
| Total debt to total capital[1] | **47.7%** | 47.4% | 29.2% | 29.6% | 37.0% |

[1] Calculated as total debt divided by the sum of total debt and total equity.

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## Item 7. Management s discussion and analysis of financial condition and results of operations

### General overview

Sonoco is a leading manufacturer of consumer and industrial packaging products and provider of packaging services with 347 locations in 34 countries. The Company s operations are organized, managed and reported in four segments, Consumer Packaging, Paper and Industrial Converted Products, Protective Solutions and Display and Packaging. Generally, the Company serves two broad end-use markets, consumer and industrial, which, period to period, can exhibit different economic characteristics from each other. Geographically, approximately 66% of sales are generated in the United States, 16% in Europe, 7% in Canada and 11% in other regions.

Beginning in the fourth quarter of 2012, the Company changed the names of its segments. The segment previously referred to as Protective Packaging is now called Protective Solutions and the segment previously referred to as Packaging Services is now called Display and Packaging. There were no changes in the composition of either segment.

The Company is a market-share leader in many of its product lines, particularly in tubes, cores and composite containers. Competition in most of the Company s businesses is intense. Demand for the Company s products and services is primarily driven by the overall level of consumer consumption of non-durable goods; however, certain product and service groups are tied more directly to durable goods, such as appliances and construction. The businesses that supply and/or service consumer product companies tend to be, on a relative basis, more recession resistant than those that service industrial markets.

Financially, the Company s objective is to deliver average annual double-digit total returns to shareholders over time. To meet that target, the Company focuses on three major areas: driving profitable sales growth, improving margins and leveraging the Company s strong cash flow and financial position. Operationally, the Company s goal is to be the acknowledged leader in high quality, innovative, value-creating packaging solutions within targeted customer market segments.

Over the next three to four years, the Company aspires to grow sales to between $5.5 and $6.0 billion, increase base earnings per share annually by approximately 10% and increase return on net assets employed to between 11% and 12%. Achieving these goals will be difficult in the current low-growth environment. The Company s expected growth drivers continue to be organic sales growth, including new product sales, expansion in emerging international markets and strategic acquisitions.

The Company s plan to improve margins focuses on leveraging fixed costs, improving productivity, and maintaining a positive price/cost relationship (raising selling price at least enough to recover inflation in material, energy and freight costs).

### Use of Non-GAAP financial measures

To assess and communicate the financial performance of the Company, Sonoco management uses, both internally and externally, certain financial performance measures that are not in conformance with generally accepted accounting principles ( non-GAAP financial measures). These non-GAAP financial measures reflect the Company s GAAP operating results adjusted to remove amounts relating to restructuring initiatives, asset impairment charges, environmental charges, acquisition-related costs, excess insurance recoveries, losses from the early extinguishment of debt, and certain other items, if any, the exclusion of which management believes improves the period-to-period comparability and analysis of the underlying financial performance of the business. The adjusted non-GAAP results are identified using the term base, for example, base earnings.

The Company s base financial performance measures are not in accordance with, nor an alternative for, measures conforming to generally accepted accounting principles and may be different from non-GAAP measures used by other companies. The Company uses the non-GAAP base performance measures presented herein for internal planning and forecasting purposes, to evaluate its ongoing operations, and to evaluate the ultimate performance of management and each business unit against plan/forecast.

Reconciliations of GAAP to base results are presented on pages 19 and 20 in conjunction with management s discussion and analysis of the Company s results of operations. Whenever reviewing a non-GAAP financial measure, readers are encouraged to review the related reconciliation to fully understand how it differs from the related GAAP measure.

### 2012 overview and 2013 outlook

2012 proved to be another challenging year and results came in lower than management had expected when the year began. Key expectations for 2012 were that overall volumes would increase by around 1%, price/cost would be slightly positive, and productivity would improve and more than offset inflation in labor and other costs. However, unexpected commodity cost increases reduced consumer spending for packaged food, and the European recession and slowing emerging market economies worked to reduce demand in the Company s industrial-related businesses. In addition, several temporary operating issues served to increase costs and constrain the improvement in productivity.

Although actual price/cost was better than expected, the overall impact on profitability from volume and mix was negative and productivity gains, while improved over the prior year, were not enough to fully offset inflation in labor and other costs. Overall gross profit margin increased 80 basis points in 2012 to 17.6%, however, it was about 100 basis points lower than expected. In addition, Tegrant results, although accretive, were below projections. Nevertheless, with the benefit of the Tegrant acquisition Sonoco was able to generate record sales and gross profits in 2012 and was able to significantly improve free cash flow. The Company also made significant progress integrating Tegrant, successfully achieving targeted synergies and further expanding its new Protective Solutions segment.

Pension and postretirement benefit expenses were significantly higher in 2012, but in line with expectations. The effective tax rate on base earnings was generally in line with expectations and the prior year; however, the rate on GAAP earnings was higher than usual primarily due to taxes incurred in connection with the repatriation of accumulated offshore cash and was significantly higher than the rate in 2011 due primarily to a prior year beneficial adjustment to deferred tax valuation reserves.

As noted above, late in 2012, the Company initiated the repatriation of approximately $260 million of accumulated offshore cash, of which, $233 million was received in January 2013 and used to pay down outstanding debt. An additional $27 million is expected to be repatriated during the balance of 2013.

The aggregate unfunded position of the Company s various defined benefit plans increased from $433 million at December 31, 2011, to $479 million at the end of 2012. Contributions totaling $75 million in 2012, and better than assumed returns on plan assets experienced during the year, were more than offset by the impact of lower discount rates.

The Company generated $404 million in cash from operations during 2012, compared with $245 million in 2011. The majority of the year-over-year increase is attributable to lower 2012 pension contributions and a smaller amount of cash used to fund working capital increases.

## Outlook

Entering 2013, the Company remains cautious regarding the future pace and sustainability of the global economic recovery. Accordingly, management is focused on selectively pursuing opportunities to grow its businesses, optimizing operations and developing cost-management contingency plans in the event business should unexpectedly weaken. The majority of the Company s targeted growth projects fall within its Consumer Packaging and Protective Solutions segments or emerging markets.

Management expects 2013 overall volume to increase around 1.5%, reflecting a continuation of the weak economic recovery, and price/cost to be relatively flat. However, volume in the Protective Solutions segment is expected to increase in the range of 4% to 5% driven largely by new and expanded business in the automotive and life science markets. Average costs for the Company s primary material inputs - recovered paper, steel tinplate, plastic resins and film - are projected to be largely unchanged, and manufacturing productivity is expected to be strong enough to more than offset inflation in labor and other costs. As a result, overall gross profit margin is expected to improve to around 18.5% and EBIT margins to improve modestly to around 8.2%.

Management s outlook for 2013 reflects a $12 million increase in pension and postretirement benefit plan expenses due largely to higher year-over-year amortization of actuarial losses, loss of favorable amortization of prior service credits in the U.S. Health and Life Insurance Plans related to plan amendments made in prior years that became fully amortized in 2012, and the addition of Tegrant. Total contributions to the Company s domestic and international pension and postretirement plans are expected to be approximately $43 million.

The consolidated effective tax rate on base earnings is expected to be approximately 33.2% in 2013 compared with 32.1% in 2012.

## Acquisitions and joint ventures

On November 8, 2011, the Company completed the acquisition of the privately held Tegrant Holding Corp. ( Tegrant ), a leading provider of highly engineered protective, temperature-assured and retail security packaging solutions. The cost of the Tegrant acquisition was $550.0 million in cash paid at the time of the purchase plus an additional $0.5 million paid in February 2012 for changes in working capital levels to the date of the closing. 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 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-assured 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 acquisition was funded with proceeds from the issuance of senior unsecured debentures and a portion of the proceeds from a three-year term loan.

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 $7.2 million in cash, a rigid paperboard containers business in the United Kingdom at a cost of $4.7 million in cash, and a recycling business in Greenville, South Carolina, at a cost of $5.0 million in cash.

The Company completed four acquisitions during 2010 at a recorded cost of $138.3 million, of which $137.8 million was paid in cash with the remainder representing contingent consideration paid in 2011. These acquisitions consisted of Associated Packaging Technologies, Inc. (APT), a supplier of thermoformed containers to the frozen food industry (Consumer Packaging segment), Madem Reels USA, Inc., a manufacturer of nailed wood and plywood reels for the wire and cable industry (Paper and Industrial Converted Products segment), and two small tubes and cores businesses in Canada and Greece (Paper and Industrial Converted Products segment). At the time of the acquisition, APT operated four manufacturing facilities (two in the United States, one in Canada and one in Ireland) and employed more than 400 persons. The all-cash purchase price of APT, including the cost of paying off certain obligations, was approximately $120.0 million. The all-cash purchase price for Madem Reels was $10.7 million, plus contingent consideration of $0.5 million which was paid in the first quarter of 2011. The aggregate cost of the Canadian and Greek tube and core businesses was $7.1 million in cash.

In conjunction with its 2009 acquisition of EconoReel Corporation, the Company recorded a contingent purchase liability of $2.2 million. As of December 31, 2012, the Company expects payments related to this contingent purchase liability to total approximately $1.6 million through November 30, 2013, the end of the contingent payment period. Accordingly, the Company recognized a pretax gain of $0.6 million in 2012 for that portion of the contingent liability not expected to be paid.

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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.

See Note 3 to the Consolidated Financial Statements for further information about acquisition activities.

## Restructuring and asset impairment charges

Due to its geographic footprint (347 locations in 34 countries) and the cost-competitive nature of its businesses, the Company is constantly seeking the most cost-effective means and structure to serve its customers and to respond to fundamental changes in its markets. As such, restructuring costs have been and are expected to be a recurring component of the Company s operating costs. The amount of these costs can vary significantly from year to year depending upon the scope and location of the restructuring activities.

The following table recaps the impact of restructuring and asset impairment charges on the Company s net income for the periods presented (dollars in thousands):

| | Year Ended December 31 | | |
|---|---|---|---|
| | *2012* | *2011* | *2010* |
| Exit costs: | | | |
| 2012 actions | **$ 18,195** | $ | $ |
| 2011 actions | **7,061** | 20,861 | |
| 2010 and earlier actions | **(825)** | 3,448 | 14,038 |
| Asset impairments: | **8,427** | 12,517 | 9,961 |
| Total 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 | 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:

| | For the year ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| *Dollars and shares in thousands, except per share data* | *GAAP* | *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.

| | For the year ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| *Dollars and shares in thousands, except per share data* | *GAAP* | *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 positive 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

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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%.

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.

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## 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.

# 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 | |