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Operator

Greetings, and welcome to the Ball Corporation’s Second Quarter Earnings Conference Call. [Operator Instructions] As a reminder, this call is being recorded today, Thursday, August 1, 2019.

I would now like to turn the conference over to Mr. John Hayes, CEO. Please go ahead.

John A. Hayes
Chairman, President & CEO

Thank you, Lila, and good morning, everyone. This is Ball Corporation’s conference call regarding the company's second quarter 2019 results. The information provided during this call will contain forward-looking statements. Actual results or outcomes may differ materially from those that may be expressed or implied. Some factors that could cause results or outcomes to differ are in the company’s latest 10-K and in other company SEC filings as well as company news releases. If you don't already have our second quarter earnings release, it's available on our website at ball.com.

Information regarding the use of non-GAAP financial measures may also be found in the notes section of today's earnings release. The release also includes a table summarizing business consolidation and other activities as well as a reconciliation of comparable operating earnings and diluted earnings per share calculations.

Now joining me on the call today are Scott Morrison, Senior Vice President and CFO; and Dan Fisher, Senior Vice President and Chief Operating Officer of Global Beverage. I'll provide some introductory remarks. Dan will discuss the Global Beverage packaging performance. Scott will discuss key financial metrics, and then we'll finish up with some comments on our aerosol and aerospace businesses as well as our outlook for the company.

Growth in our businesses continue at or even above our expectations. Overall global beverage volumes were up approximately 5% and our aerospace revenues were up more than 30%. Across the globe, can demand continues to increase as sustainability progresses from a "special interest" initiative to a mainstream lifestyle, and innovation and execution drive more customers to seek out solutions in all of our divisions.

To say this is an exciting time to be at our company, and we said before may be an understatement. With this strong growth, we have experienced short-term costs to serve this growth particularly in our North and Central American and South America beverage can businesses. In fact, we probably left a point or two of volume growth on the table as we were unable to deliver to and service our customers at the level we typically expect of ourselves.

To stay on top of this growth and mitigate our line conversions, out-of-pattern freight and other short-term headwinds, we plan to deploy additional capital to de-bottleneck existing lines and build new capacity in order to provide for even greater growth and flexibility to supply our customers' needs at the levels that they demand. Scott and Dan will discuss our investment opportunities to grow profitably across our various geographies and businesses.

In aerospace, the team continues to deliver on its growth ambitions. Contract performance is strong, hiring is up, and we expect to pursue further investments in this business to keep up with the strong growth that we continue to see.

Now from an earnings perspective, our results were up despite tough year-over-year comps given the 2018 steel food can business sale, the conclusion of the end sale agreement in South America. As I mentioned, our North and Central America segment was challenged with previously discussed U.S. aluminum scrap headwinds and sequential project startup cost. All other segments were at or above our expectations.
We expect these near-term cost headwinds to mitigate as we progress through the second half of the year and continue to expect year-over-year improvement in each of our main geographies.

The key highlights of the quarter include, as mentioned previously, overall global beverage can grow of approximately 5% driven by 13% specialty can growth. In fact, growth in our 3 key regions, North and Central America, Europe and South America, grew 6% when you exclude the declines we experienced in Asia. Dan will get into this later.

Today, specialty cans represent over 42% of our mix on a global basis. The growth was prevalent in our largest markets with North and Central America up approximately 4% year-over-year, South America up 12% and Europe up 7%, while AMEA was down slightly due to continued difficult macroeconomic issues in this region.

We received antitrust approval for the sale of our China beverage can business, and we expect the transaction to close later in the third or fourth quarter depending on other governmental approvals around tax closeouts and foreign exchange flows. Our aerospace revenues were up over 30% and operating earnings were up 55%. While we don't expect this level of growth to continue, we do expect revenues to be up nearly 25% for the full year and operating earnings should continue to grow at revenue growth rates.

And aluminum aerosol was up low single digits with new product innovation work continuing.

We continue to focus on raising awareness on sustainability. The benefits of aluminum packaging and proactively investing in and offering aluminum packaging solutions to our customers. One interesting note regarding our growth is that while many new products continue to move into cans, our growth to date has not been meaningfully impacted by any conversions of existing brands from plastic or other substrates to aluminum beverage cans, particularly the nonalcoholic categories, including CSD and water.

That said, there have been several public announcements regarding such conversions that Dan will discuss, and they will begin to hit the market later this year or early next year.

In addition, this fall, we will launch our new infinitely recyclable, brandable aluminum cups that will make their commercial debuts in college and professional stadiums during the fall football season, with an addressable market of over 90 billion units globally, 1/3 of which are in the U.S. We are incredibly excited about this new innovation product launch. Stay tuned for further media announcements.

So in summary, we continue to see strong growth across our various businesses and while we have been challenged with short-term cost to service growth we believe these headwinds will begin to moderate and dissipate as we move through the second half of the year.

We have many exciting opportunities in front of us that set our business up well going into 2020 and beyond. We will continue to execute our long-term strategy of deploying capital in support of growth opportunities, increasing EVA dollars and earning over time through higher revenues above our cost growth, driving more mix shift in specialty containers, growing new innovative aluminum packaging products like the cup and expanding aerospace, all with the return of value to our shareholders mindset.

And with that, I'll turn it over to Dan.

**Daniel William Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

Thanks, John. Across our global operations, our team is navigating tremendous growth, complexity and incredibly tight supply/demand conditions. Sustainability in new categories are fueling customer demand, and looking ahead, when existing products convert from single-serve PET to cans in 2020 and beyond given the recent announcements by 2 of the world's largest beverage brands, the growth for beverage cans will accelerate.

In the near term and until we have more assets up and running, cost to serve the surging growth dampened North America's performance, given the U.S. aluminum scrap situation we called out last quarter and pushing our existing plants and new lines to the maximum to keep customers in cans.
Turning to growth. Our second quarter global beverage can shipments were up 5%. And excluding declines in China and AMEA, global volumes were up 6%. However, comparable operating earnings were down slightly year-over-year due exclusively to the previously disclosed U.S. aluminum scrap issues and continued U.S. line inefficiencies.

Completion of the South America ends manufacturing agreement, macroeconomic issues in AMEA and some euro FX earnings translation headwinds. All in, these issues impacted comparable global beverage earnings $55 million in the quarter with roughly $35 million in the North America business, $14 million in South America and $5 million in Europe.

Across the globe, our teams kept pace with tremendous growth in Europe, Brazil and North America, which, as John mentioned, is still experiencing operational and logistical inefficiencies given a tight U.S. industry and higher-than-anticipated growth in Brazil. The unfavorable impact of U.S. aluminum scrap, logistics and customer ordering complexities have largely been addressed in contracts renewing in 2020 and beyond.

Before I move on to the segment commentary, a brief update on some internal talent moves. After decades of successfully leading numerous Ball regions, we recently brought Colin Gillis over from Europe and he will now be leading our North America operations. And Colin's European role will be backfilled by Ron Lewis, who is joining Ball from Coca-Cola European Partners, where he was their Chief Supply Chain Officer. Ron worked in the Coke system for nearly 20 years and we have known him throughout that time. His experience in leadership will be a great addition to our team.

Moving to the individual segments. Ball’s North American segment volumes were up 4% in the quarter, continuing double-digit growth in spiked seltzers, wine, craft beer, new water brands and developing categories of fitness energy drinks and spirits and premix cocktails in cans led to year-over-year growth in specialty.

Inventory levels for our specialty portfolio are low and every plant in our network is running at maximum utilization. Given the combination of strong growth, the upcoming transition of traditional products, such as still water from single-serve plastic to cans, the demands on our existing operational assets are such that we will not be able to sustain current growth rates without additional investment.

Conversions, line speed ups and additions at existing facilities in Georgia and Texas are in process. We look forward to offering new products and more specialty aluminum can and bottle capability to support our customer’s growth. Following these investments, our plant teams will gain some operational breathing room across the system, allowing us to get costs in line and, with previously negotiated contracts favorably resetting at the beginning of 2020, I fully expect strong earnings momentum across North America in late 2019 and beyond.

Turning to our South American segment. Volumes were up 12% in the second quarter, led by incredible strength in Brazil. As mentioned earlier, the completion of the ends manufacturing contract required as part of the Rexam transaction led to just slightly lower second quarter earnings. Higher-than-anticipated Brazilian volume growth led to incremental logistics costs. Comps will improve as we move towards the fourth quarter, which is seasonally strongest quarter for South America. Our expansion in Paraguay is on track for our late 2019 startup and the 2018 expansions of Argentina and Chile are performing to expectations.

And similar to North America, overall South American industry trends remain strong with cans. New product and brand launches for beer, wine, energy and still water in cans as well as multiple brewery expansions will support additional investment across the industry, and specific to Ball, a new customer's multiple brewery expansions will support additional capital in Brazil, including a multi-line greenfield facility.

European beverage earnings were up 16% in the second quarter due to volume growth and improved year-over-year operational performance despite a $5 million unfavorable operating earnings translation impact in the quarter. Volumes increased 7% in the second quarter despite mixed weather during the quarter. Cans are winning and customer’s operations continue to add new can filling lines.
For 2019, contributions from our new lines, the year-over-year impact of our 2018 G&A improvement and plant cost initiatives will provide further year-over-year earnings growth and margin expansion as we progress through the balance of the year.

Looking ahead, we will leverage our existing continental Europe network with near-term line speedups. While in Russia, we are executing a capacity expansion strategy in the short and medium term to support in-country can growth.

Turning to AMEA and Asia. The demand environment was softer than anticipated as Middle Eastern conflicts escalated in the quarter. Operationally, the plants have lowered their costs and focused on controlling what they can control. And as John mentioned, in China, Ball has secured antitrust approval and has begun the multistage closing process for the Chinese manufacturing plant sale to ORG.

In summary, global beverage can demand momentum has continued in our 3 largest regions of North and Central America, Brazil and Europe. Supply/demand globally for cans is tight and our commercial sustainability and recent talent moves will benefit Ball going forward. As John mentioned earlier, the amount of growth we are seeing today and are securing into the future is amazing. We will invest wisely with an eye on EVA returns and a proper pace relative to customer's long-term needs.

Thank you, again, to all of our teams around the globe. With that, I'll turn it over to Scott.

**Scott C. Morrison**
Senior VP & CFO

Thanks, Dan. Comparable second quarter 2019 diluted earnings per share were $0.64 versus $0.58 in the second quarter of 2018. Second quarter 2019 results reflect $0.04 comparable earnings per share dilutive impact of the July 2018 sale of our U.S. steel food and steel aerosol business. Details are provided in the notes section of today's earnings release and additional information will also be provided in our 10-Q.

Second quarter comparable diluted earnings per share reflects strong global beverage can shipments and solid aerospace contract performance, a lower effective tax rate and lower corporate costs offset by the sale of our U.S. steel food and aerosol business and lower year-over-year end sales in South America and U.S. scrap and setup costs that Dan just outlined.

Net debt ended the quarter at $6.5 billion and reflects our typical seasonal working capital build and ongoing share buyback. We continue to anticipate year-end 2019 net debt to remain around $6 billion as we buy back stock and invest in our businesses and pay dividends throughout 2019. Close to 90% of Ball’s balance sheet debt is at fixed rates and we’ve reached our post-Rexam target leverage levels.

Ball's balance sheet is healthy and provides ample opportunity and flexibility to service growth and shareholder value return needs. As we think about 2019, our 2019 financial goals originally laid out in mid-2016 are largely intact. With the North American scrap and operational headwinds that we faced in the first half, it makes the full year $2 billion of EBITDA challenging to hit. Having said that, our second half expectations haven't changed as the scrap and operational headwinds begin to moderate and our unit volume growth continues to show strength, we'll exit this year on a $2 billion EBITDA run rate.

Given all the excellent growth opportunities and dependent on the pace of CapEx spend and incremental pension funding, we see 2019 free cash flow being in the range of $1 billion. Full year interest expense will be a little bit north of $310 million. The full year effective tax rate on comparable earnings will be in the range of 19% to 20%, and corporate undistributed will likely run just under $75 million, representing benefits from strong overall cost management and the benefits of our shared services structure.

We anticipate benefiting from this low-cost structure in 2020 and beyond. Year-to-date, we have executed nearly $400 million of repurchases of stock and paid out approximately $80 million in dividends. The accelerated stock repurchase program that we announced earlier this year continues to be executed. Following the year-to-date run up in the stock, we get asked a lot about capital allocation plans.

The significant long-term growth opportunities we have in cans, cups and aerospace will require more growth CapEx over time. And despite this growth CapEx, we'll continue to flow meaningful amounts of free
cash flow that like always, we will manage for the benefit of our long-term shareholders. When you invest in Ball, you invest with us.

With that, I'll turn it back to you, John.

**John A. Hayes**  
*Chairman, President & CEO*

Great. Thanks, Scott. In our aluminum aerosol business, which is now reflected in other nonreportable results and as I mentioned earlier, global volumes grew 1% in the quarter. Industry dynamics are beginning to change, and we continue to see opportunities to broaden our global footprint either through bolt-on M&A or greenfield investment. These opportunities vary by geography.

We're proud of the progress the team is making on innovation and sustainability initiatives. As mentioned, our aerospace business reported 31% revenue growth and 58% operating earnings growth on solid contract performance, partially offset by incremental labor costs.

In addition, we have welcomed nearly 600 new aerospace employees year-to-date, and we anticipate adding at least another 600 employees by year-end. Total aerospace headcount recently surpassed 4,200 people. Our focus remains firmly on onboarding these new employees, further expansion of our Colorado facilities and executing on our strong backlog.

Looking forward, the new 2-year U.S. budget agreement further underpins the growth that we see, and aerospace now has the potential of growing its earnings in excess of 20% in 2019 and with contracted backlog levels exceeding $2 billion and our won not booked backlog at $4.8 billion, the future continues to look bright for the foreseeable future.

While we have made great strides towards our 2019 financial goals originally laid out mid-2016, our longer term prospects have never been brighter. Ball is uniquely positioned to lead and invest in sustainable growth in global aluminum packaging and aerospace while delivering significant value to our shareholders. We look forward to exceeding our long-term 10% to 15% diluted earnings per share growth goal in 2019 and over the next several years.

While we are striving in the short term to manage costs and squeeze as many cans out of our existing operations, we're completely immersed in our long-term growth plans and increasing value creation for our shareholders. Our ability to succeed is because of our people, our culture, EVA mindset, our healthy balance sheet and exceptional products and technologies. We will continue to responsibly invest in our businesses for the long term and do what is best for Ball and our shareholder's long-term success. And with that, Lila, we're ready for questions.
Question and Answer

Operator
[Operator Instructions] Our first question is from the line of Anthony Pettinari with Citi.

Anthony James Pettinari
Citigroup Inc, Research Division

John, the view that you'll be able to grow earnings beyond the 10%, 15% EPS range over the next few years. I guess what kind of volume assumptions underlie that on the bev can side? And can you give us any detail on maybe customer commitments you've secured that give you confidence that you'll be able to reach that volume number?

John A. Hayes
Chairman, President & CEO

Yes. First with respect to volume growth. As we said in the first quarter, historically, we always thought this business to be plus or minus globally about a 2% unit volume growth around the world, and we think it's doubled that. We've been outperforming that relative, and I think in the very short term we can continue to see that. But I think over the long term, 4% unit volume growth is a good way to think about it. And if there's upside to that, we're going to be spending more capital because we assume it's going to be good EVA return projects to meet our customers' needs.

In terms of specific customers in the contracts, we don't get into anything [on that topic]. But for example, the new plant we're building in Brazil is secured by a new long-term customer.

In North America here, we've been, as I mentioned in my comments, we've been leaving growth on the table because we haven't been able to serve incremental. So the demand certainly is there. We just need to get our supply caught up so we can get a little breathing room and give our operational folks more opportunity to kind of slow down the conversions that they've been experiencing, which have been increasing these short-term headwinds that we talk about.

Anthony James Pettinari
Citigroup Inc, Research Division

Got it. Very helpful. And then Dan, you talked about $55 million of headwinds in the quarter from operational inefficiencies, and you broke that out between North America, Europe and LatAm. Any view on what that number could look like in 3Q? And then just directionally, would you expect those headwinds to abate in all 3 of the regions that you mentioned? Or could they intensify or be relatively stable, just any view on that in 3Q?

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

I think we're very hopeful that the $35 million in North America in particular will dissipate. And we've got plans in place on the metal scrap issue. That will start to trend in a more favorable direction. It will still be a headwind year-over-year, but it'll be less of a headwind than we saw in the first half.

The performance in our inefficient lines, we had 2 conversions that took place in the quarter, and we're still a little behind on 2 lines in the Goodyear startup. We're seeing progress there. So I think that momentum will continue through the quarters. I don't know if it dissipates entirely in 3Q, but it'll continue to progress in the right direction heading into certainly the beginning of '19. And then really, Europe's FX that we described, I probably can't give you much guidance there. And the $14 million in South America that will dissipate in the second half of the year, as it relates to the Ardagh amortization.

Operator
Our next question is from the line of Ghansham Panjabi with Robert W. Baird & Company.

**Ghansham Panjabi**  
*Robert W. Baird & Co. Incorporated, Research Division*

First off, on the 13% increase in specialty can volumes in 2Q, John, can you just sort of break that out by region? And then you also mentioned growth came in above your expeditions for the second quarter. And I'm sorry if I missed this. But which region in particular surprised you to the upside?

**John A. Hayes**  
*Chairman, President & CEO*

Well, I think the momentum continues. To answer your question, first in North America specialty volumes were up upper single digits. As I said, they could have been higher, but we just didn't have enough cans to get out in the marketplace. I know South America was very strong, it was low 20% growth in the specialty and even in Europe, we're seeing a lot.

Fundamentally what's driving this is you're seeing all these new categories and all these new products moving into specialty containers, and that's what we get most excited about. Ghansham, as you know, over the past 5 to 10 years, we've really put a focus on putting supply of specialty containers into our system, and that only continues to accelerate.

I think to answer your broader question about where were we surprised. I just think overall global growth and a very seasonally strong quarter, up 6% if you exclude China. And when you think about that, we left growth on the table for it, if we have the capacity we very easily could have replicated the first quarter. But we didn't, and that's why we're talking about putting more capital in.

**Ghansham Panjabi**  
*Robert W. Baird & Co. Incorporated, Research Division*

Okay. And then just based on your current projects that you've announced, including line speedups and debottlenecking, how much incremental capacity will your footprint generate in the developed markets going in to 2020? And then off the new categories that you're benefiting from, how is the filling location dispersion different relative to your legacy customers? I'm just trying to get a sense as to how logistics costs are different for these new customers and how also it may impact your capital allocation plans related to any new capacity going forward.

**Daniel William Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

Yes, I would say by mid-2021, what we're signaling here is somewhere between 4 billion to 5 billion of additional capacity. And the reason 2020 is a difficult comment for us is I think in Texas specifically, that is the most difficult environmental permitting area that we deal with anywhere in the world. So you can't even start civil engineering projects until the permitting is officially signed off, and that could take as long as a year. So 2021, I've got good line of sight that the new facility, the 2 lines and the speedups that are all in process will be up and running, and we should be executing against those by mid-2021. Maybe 60% of what I've described falls in the second half of 2020.

**John A. Hayes**  
*Chairman, President & CEO*

Yes. So the best way to think about it, if you break it into line speedups versus new lines versus new facilities kind of 1/3, 1/3, 1/3 is the best way to say it. Line speedups that will be able to help us out for most of 2020. Certainly, the summer selling season in North America. And then as Dan said, the 2 new lines we're putting in North America. One, we have a pretty good line of sight that should be able to help in the second half of next year and then the other one in Texas is dependent upon the permitting. And then as we go into South America, I think that's really more for 2021.

**Ghansham Panjabi**  
*Robert W. Baird & Co. Incorporated, Research Division*

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spglobal.com/marketintelligence
And just the new categories and the filling location?

**Daniel William Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

Yes. Definitely benefiting from new categories in North America. And one of the investments will be targeted to a new filling location. The rest of the incremental investments will be falling into existing filling locations.

**John A. Hayes**  
*Chairman, President & CEO*

Yes. And Ghansham, as you know, we don't talk about specific customer's contracts and/or growth plans. But we are aware of a variety of specific customers that are adding can filling capacity, whether it's in North America, whether it's in Europe, and we're dovetailing our geographic investments with those. And so there have been some customers that have been having to buy cans from us in one geographic location, ship them across country to another one where they fill it. We're aiming and looking to work with them on streamlining a lot of that, so it'll not only help us but it'll also help them.

**Daniel William Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

I think one last comment is, we absolutely are looking at what products and what customers are winning in the market and which ones we want to be with, and those definitely played into some of these expansion and investment call outs.

**Operator**

Our next question is from the line of Edlain Rodriguez with UBS.

**Edlain S. Rodriguez**  
*UBS Investment Bank, Research Division*

John, quick question for you. I mean you'll be adding new capacity. Your main competitor is adding more capacities. Any concerns that the industry maybe you're attracting too much capital too soon? Or do you feel that volume will be strong enough to absorb it all over the next couple of years?

**John A. Hayes**  
*Chairman, President & CEO*

We feel pretty darn strongly that the growth in the various markets is more than sufficient to cover that up. As I mentioned, just give you a context here, North America is approximately 100 billion can market, has been growing at 4%. That's 4 billion cans right there alone in any given year. You multiply that over a couple of years, the next thing you know you're looking at 8 billion, 12 billion of new capacity and that's 8 to 12 new lines. That is why we're getting out ahead.

As you all know, what we've invested depends on where you look, but across our whole system globally, we've invested in 11 new lines over the last 18 months. And we've been able to keep up with a lot of that growth but not completely all of it. And so what we're doing in this is just the next phase of trying to get out ahead because we believe strongly that by 2021, that given everything that our customers have been talking about that's in the pipeline right now that we see this growth continuing, and that's not even talking about the broader picture of this whole antiplastic sustainability, and if that continues to accelerate. We're going to be talking about more capital as we go forward also.

**Edlain S. Rodriguez**  
*UBS Investment Bank, Research Division*

Okay. And in terms of capital allocation, so all those new investments you're making, are they going to be coming at the expense of share buyback? Or do you think you can still do that 1 billion that you've talked about over the next couple of share buyback?
John A. Hayes
Chairman, President & CEO

Well, here's the way I would think about it, and I'll turn it over to Scott in a minute. But when you talk about this growth, as we all know, we've talked about this, our D&A is approximately $550 million. And we've said our maintenance, no growth capital is in the range of $250 million. Some people have asked over time saying, how much does it cost for a new line and and it varies tremendously by region, and what capacities you want to put in. But if you say roughly a new line is approximately $75 million, and you get anywhere from 800 million to 1 billion cans on it depending on how many swings you have in that. That means to keep up with this growth on a global basis, you're talking about a growth for us on a base of 105-plus billion cans that's growing 4%. That's about 4 new lines a year. And if it's 75 million, that is about 300 million. So you layer on top of that you get the 250 maintenance plus 300 of growth that gets to about D&A then you layer on the growth that we have for aerospace and then you grow on cups and other things, and you can quickly see how we get to kind of 700 million. If that global beverage can growth continues and we need to put more in, we have the capacity too, and I'll turn it over to Scott now. Even with all this elevated CapEx, we're still generating a tremendous amount of free cash flow.

Scott C. Morrison
Senior VP & CFO

Yes. I think we're going to continue to invest in our business on all these projects where we can grow EVA dollars, grow our earnings. We're going to continue to buying back our stock, paying dividends. I think the 50% increase earlier this year is pretty strong evidence of that. And I think we'll be both kind of a consistent buyer of our stock, but also be opportunistic to repurchase our shares and take advantage of volatility. So that means in any quarter or two, we may buy more or less depending on that volatility. But we're going to continue to invest in our business and return a lot of capital back to the shareholders.

John A. Hayes
Chairman, President & CEO

Yes. And let me just reiterate, for the last 20 years we have done that exact same model, we've invested in our business and we've generated a tremendous amount of value for our shareholders by being consistent allocators of capital back to our shareholders. Yes, we have elevated CapEx, which is exciting because that's going to provide the growth and we also have the flexibility to be consistent over the long term in returning value to shareholders.

Operator

The next question is from the line of George Staphos with Bank of America Merrill Lynch.

George Leon Staphos
BofA Merrill Lynch, Research Division

I just wanted to ask a question, kind of a point of clarification to start. The additional 4 billion to 5 billion cans of capacity Dan that you've said you think you'd get to on an annualized basis by mid-2021. Does that include capacity within the number for aluminum cups? Or does it not? And similarly, I thought it would've, but given John's commentary earlier, does that include anything for any of these still water conversions or not?

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

I would say cups, no. It's not in there. And still water conversions, we don't have much built into that 5 billion. And as you would imagine, George, we're having very different conversations with the customer base, all the 3 major markets are incredibly tight. And so if there was going to be a move into water and there are certainly conversations about that, it'll require some significant collaboration between us and our customers to make the supply chain. They'll have to invest in filling. They'll have to invest in
potentially different logistics structures and warehousing and we'll have to add capacity for them. And so those conversations would be in very early innings right now.

George Leon Staphos  
BofA Merrill Lynch, Research Division

And I would take it probably not prudent to size what the opportunity could be either for cups or for still water. Maybe not '21, but '22, '23 because you obviously since you don't have a full agreement yet on the water side, you can't bring in permitting, you can't bring in CapEx yet, but is there way to size what it could look like maybe in '22 or '23.

Daniel William Fisher  
Senior VP & COO of Global Metal Beverage Packaging

Yes. I'll let John comment. It would be difficult. It's a massive market. I think single serve waters' 500 billion units and global cans is 300 [billion units]. So a 2% move, 3% move would require a very different investment pattern for us. On the cup side, we are commercializing the product. It will be in some sporting venues now. The thing that we're trying to get our head wrapped around is exactly the output that will come from a massive line or footprint expansion. We're working through those, and those details right now so giving you commentary on the specific volumes for the investment, still a little premature. So we'll know that the next 60 to 90 days, I think.

John A. Hayes  
Chairman, President & CEO

Yes. George, just to amplify on the cups, I completely agree on the water side. But just on the cups, as I mentioned in my comments, around the world, in terms of the addressable market for this, it's over 90 billion units, 1/3 of which are in the United States. This will come at a premium. Aluminum's not inexpensive, but what we see so far is a very strong willingness to pay a premium for a sustainable product, particularly as college campuses and professional sports venues go plastic-free.

George Leon Staphos  
BofA Merrill Lynch, Research Division

Understood. I thought that some of the investment in lines that you're talking about now would include some capacity for cups. Is that incorrect? I know you're commercializing, you're doing some pilots this coming football season. Am I mistaken that if you really go full force with this, that the investment really hasn't been lined up yet for those revenue streams?

John A. Hayes  
Chairman, President & CEO

Correct. That is correct. We have already put in a pilot line that we're currently serving for this fall. But to really scale it out, it requires a new investment that we have not announced yet.

George Leon Staphos  
BofA Merrill Lynch, Research Division

Okay. Thanks for all the back and forth on that. Last question on investment and I'll have one shorter-term one, and I'll turn it over just out of fairness. So the return on capital that you're seeing out of these new investments, is there a way to say whether it's perhaps a lesser rate than what you're seeing but you're getting so much growth you're willing to take a lower return than what you've seen in the past, or the returns on these new projects equivalent or above what you've seen with returns on your last 2 or 3 years' worth of growth CapEx? And then separately and maybe shorter term, given all the growth you're seeing, what gives you confidence? What should the investor take away as why we should be confident that the startup cost and all the other variable expense that's been sort of every quarter there's been something that will dissipate by 2020? Is it mostly in the contracts? Or is it the learnings that you're getting from all of the work you're doing right now? What would it be?

Daniel William Fisher
**Senior VP & COO of Global Metal Beverage Packaging**

I'll answer the returns question first. The conversations that we're having with our customers are very different. I think John's indicated this, and that is resulting at least all the projects that we've approved thus far are at north of historical norms returns on these projects. And in Europe, North America and South America, the markets are tight. And so the conversations are, in many of those markets that used to have excess capacity, they're just very different. And so what we should be doing better from a return threshold standpoint at this point. Fair question, and I think when John indicated the 3 buckets of capital investments for how we'll get units, the easiest units to get are speedups and conversions. The second most difficult are full line expansions and the third are greenfield. And where we have admittedly struggled, whether it's Monterrey or it's Goodyear or it's Cabanillas over the last couple of years, we've generally had an 18-month time horizon on seeing the commercialization of the products and getting up to a run rate. And I think it's probably going to take a little longer than that and we'll probably communicate that more explicitly.

One thing that we do know is that we have spent on a hell of a lot more time on training. And the other thing in some of these markets, in North America, Goodyear is really the first market we built a greenfield plant in 30-something years. So we will get better at it, and I think we'll hire better. I think we'll train better, and we are fully committed to that.

**Operator**

Our next question is from the line of Tyler Langton with JPMorgan.

**Tyler J. Langton**  
**JP Morgan Chase & Co, Research Division**

I think you just mentioned from the sustainability, you really haven't sort of seen a benefit yet. Then you kind of mentioned just in Northern Europe, you're starting to see some customers convert from PET to cans. Can you just talk about how significant that move is or just provide a little more color on that?

**Daniel William Fisher**  
**Senior VP & COO of Global Metal Beverage Packaging**

Yes. Well, this is John. Maybe I'll turn it over to Dan. We didn't say we haven't got the benefit from sustainability. All these new products I think are being driven by sustainability. What we haven't seen in any meaningful way is existing brands that are already in existing substrates converting to aluminum. There have been some public announcements by customers. We are obviously aware of other investments that they are making for those conversions, and that's what's gives us some conviction as we look forward into it. I do think that many brand owners are struggling as their retailers are demanding more sustainable products and a reduction of their footprints, both environmentally and from a greenhouse gas perspective. And they are turning to products, such as aluminum, and that's what I was talking about. You're absolutely right. In Europe, you're seeing it. I think you're starting to see it in North America. I think someone asked the question earlier about how big could that be? We're in early innings so it's too early to tell, but so far, so good in terms of what we've seen.

**Tyler J. Langton**  
**JP Morgan Chase & Co, Research Division**

Okay, that's helpful. And then in terms of the corporate expenses, Scott. I think $16 million this quarter had been to low 20s. Is that $16 million kind of a good run rate going forward? Is that mainly from sort of the shared services initiatives?

**Scott C. Morrison**  
**Senior VP & CFO**

It's a ton of different things, but our run rate should be pretty good. I said it'd end up kind of just under $75 million for the full year. We're doing a lot of things, whether it's restructuring, legal entities, some of the things we've done on pensions, shared services. It's all those things that are adding to that, basically lowering our cost that we'll get the benefit of not just this year but into the future.
John A. Hayes  
**Chairman, President & CEO**

Let's not forget a couple of years ago, we talked about over the 2018, really, it's latter half of '17, we're going to actually be making investments in standing up shared services, and we should start to get the benefit as we get into the second half of '19, and that's exactly what we're seeing. But to Scott's point, that's just one of it. There's hundreds of different projects that all incrementally may not look that exciting, but cumulatively, they start to add up.

Tyler J. Langton  
**JP Morgan Chase & Co, Research Division**

Okay. On this final question in terms of CapEx. For these new projects, most of that in 2020? And just kind of how do you think about CapEx this year?

Daniel William Fisher  
**Senior VP & COO of Global Metal Beverage Packaging**

Yes. I think CapEx, we initially said around $600 million for CapEx. I think it could be more than that. I think next year could be a little higher than this year. All these projects, we just approved it at our Board meeting a week or so ago, $350 million of capital to be spent over the next 18 to 24 months to add capacity across our beverage system and another $150 million in our aerospace business to keep up with the growth in that business. So I think we could spend a little more than $600 million this year and I think we'll spend a little bit more than that next year.

Operator

Our next question is from the line of Arun Viswanathan with RBC Capital Markets.

Arun Shankar Viswanathan  
**RBC Capital Markets, LLC, Research Division**

Just wanting to understand the outlook statement of EPS growth of greater than 10% to 15%. It sounds like volume's potentially trending a little better than you thought. You also discussed contract renegotiation in the statement in the release, but you have experienced quite a bit of cost. So is implicit in that statement that contract renegotiations and pricing improvements and mix is going to more than offset the logistics issues and the cost and inflation you're experiencing? Or is it a greater pivot to buybacks as well? Or maybe you can just size what kind of drove that statement?

John A. Hayes  
**Chairman, President & CEO**

Look. Qualitatively, and I'm not going to hash through all the numbers because I've think in one way, shape, or form talked about them already. But number one, we've had a variety of headwinds that we said we're going to dissipate. Certainly, if we get into the back half this year even more importantly going into 2020. So that's a source of year-over-year improvement.

We also have unit volume growth that is much stronger than we had historically have seen and/or anticipated. And the mix of that more in specialty is a kicker on top of that. So that's a big data point relative to our historical 10% to 15%. You think about the growth in aerospace that we've been going, it's been growing much stronger than we historically have. There's other things as well. And then you talked about the new capital we're putting in, and we're an EVA company so we better darn well be generating returns on that. So you put all that together and absent just normal share repurchases, you can see a line of sight why we feel bullish over the next few years.

Arun Shankar Viswanathan  
**RBC Capital Markets, LLC, Research Division**
Okay. And then just from another perspective, I'm just wondering South America, you guys experiencing very strong growth. There has been some extra capital that's come in there though. Any concerns that the growth there could slow down eventually and with new entrants and a little more capacity?

**Daniel William Fisher**  
*Senior VP & COO of Global Metal Beverage Packaging*

Probably less concerned about the new entrants, just more concerned with the volatility of the region. But the reality is the movement, and I think, John, we've talked about this historically. But what you're seeing, an accelerated growth rates in North America and in Europe is a sustainability impact. What you're seeing in South America, which is a real tailwind and it should continue for some period of time, obviously given that the macro environment remains somewhat healthy, is it's a shift from returnable glass by the largest incumbent, to cans, meaningfully, and there are making significant filling investments to support that. They have lost share over the last 2 to 3 years in that marketplace by premiumization of beer, and all of that going into specialty aluminum packaging.

And so they have made a conscious decision to move away from returnable glass. And so that's why you're seeing these accelerated growth rates in that marketplace and they're committed as best we can tell to doing that for a long period of time. So we like the growth trajectory in that market in particular.

**John A. Hayes**  
*Chairman, President & CEO*

Yes. Also further underpinning it over the last few years, we've actually seen very strong growth. But that was despite overall consumption of beverages to be down. I can tell you here in the second quarter of 2019, the total beer consumption, irrespective of what package type it was in, was up by 2%. Soft drink was also up by 2%. That's the first time in a long time those have been positive. And so if we had good growth underpinning with negative overall volume and now that's turn positive, then you layer on what Dan said that's why we feel constructive over the next several years.

**Arun Shankar Viswanathan**  
*RBC Capital Markets, LLC, Research Division*

Okay, last follow-up on free cash flow. Assuming that you do grow EPS in the 10% to 15% or above range, given that your investments look like you're increasing your CapEx outlook, would you expect slightly lower free cash flow growth? And how should we think about that?

**Scott C. Morrison**  
*Senior VP & CFO*

No. Not necessarily. As Dan talked about the projects that we're investing in and the mix of those projects gets better and I think the earnings acceleration will offset some of the growth in capital over the next few years. So I don't necessarily see free cash flow is taking a big as we go forward.

**John A. Hayes**  
*Chairman, President & CEO*

Yes. And the other thing I'd point out is actually, cash flow from operations is going to be growing quite strong. And when you really think about free cash flow as a function of the cash you generate from running your business, less the maintenance CapEx you need to support that business, and then plus or minus growth capital and that growth capital could be M&A, it could be greenfield investments as we talked about. So we actually, over the long term, that growth investment is a one-time type of thing. And so yes, in 2019 or 2020 or '21, we may have elevated CapEx, but it's onetime growth CapEx that's going to accelerate the free cash flow from operations.

**Operator**

Our next question is from the line of Kyle White with Deutsche Bank.

**Kyle White**
Deutsche Bank AG, Research Division

Just curious what kind of volume impacts you saw from the weather conditions in the quarter, and then what have you seen in July? Any impacts from the heat waves that we are seeing.

Daniel William Fisher
Senior VP & COO of Global Metal Beverage Packaging

No issues in North America. I assume that's what the question is coming from. But we did see in the second quarter as good as our volumes were in Europe, the weather wasn't on our side. And that has certainly turned. But from a weather perspective, as long as it's not over 95 consistently with people, people are going to drink canned products. I mean, that's kind of the temperature range we usually see.

John A. Hayes
Chairman, President & CEO

And as Dan's point, in Europe, we did qualitatively, the volumes were quite strong. But we do think that they were more muted than they otherwise would have been because of bad weather. You go into July, it's actually got incredibly hot. It's almost too hot where people to stay indoors. But having said that, volumes continue along the growth pace that we've always talked about. So for different reasons, it really hasn't impact over the longer term, but you're going to have short-term dislocations because weather go both good and bad.

Kyle White
Deutsche Bank AG, Research Division

Got you. And then turning to aerospace, continues to grow nicely, the won not booked backlog close to about $5 billion. Can you just provide some details on this backlog and kind of the typical timeline that we should expect them to materialize into won contract and materialize into actual sales?

John A. Hayes
Chairman, President & CEO

Yes. It's truly across the board. When you look at the won not booked, we have the things such as I'll just give you 2 book ends. We have on one hand the shorter term. Is contracts we have won for specific satellites, for specific customers in the classified arena that because the government didn't have a budget they couldn't sign an agreement. Now that that budget is behind us, it significantly improves the prospects over the near term that we will go on contract and that will move from won not booked into a funded backlog status. On the other extreme, we do all the sensors that are on the fuselage and wings of the F-35. That contract will go out to 2030 or 2040 in the various lots that we have produced. Some of them will move in the short-term to from won not booked to funded backlog. Others will stay out there for a number of years as these planes continue to be built. So those are just 2 extremes and there's hundreds of programs in it the have similar characteristics within those parameters I just laid out.

Operator

The next question is from the line of Neel Kumar with Morgan Stanley.

Neel Kumar
Morgan Stanley, Research Division

I just had another question on aluminum cups. Do you have a preliminary sense of what the receptivity of customers is to cups in aluminum versus plastics? And are there any other new revenue opportunities outside of beverage cans that you're considering?

John A. Hayes
Chairman, President & CEO

Maybe I'll take the first one. We've done a bunch of quantitative and qualitative research that says there could be a lot of upside here. I think what we've seen at a high level that people
see the experience of the container as much better than all the existing alternatives. They see it colder, they see it sturdier, they see a willingness to pay more as a result of that. And so everything that we've seen says there could be a lot of interesting upside in here. And as it relates to other innovations, we always have other innovations, but they consistently revolve around the markets in which we currently serve. And so this is for beverages, I would not anticipate us going in the food, we consciously made a decision to exit that, but we have a lot of things in the pipeline. Now Dan, you want anything to add?

**Daniel William Fisher**

*Senior VP & COO of Global Metal Beverage Packaging*

I would say, I mean obviously you're presenting this in kind of the entertainment space and food service space. And look, we are 100 for 100 in terms of the percent of showing this cup to a potential customer and then wanting to place an order right now. We are turning down, and we're allocating is what we're doing, but we're you'll see this is entertainment venues and you'll see it in sports venues where there is a massive push to have a green facility.

**John A. Hayes**

*Chairman, President & CEO*

It further helps leverage us on the college campuses, for example, because when college campuses in terms of sustainability, that is probably the greatest area when you think about demographics, when you think about people 18 to 25 years of age, those are most conscious about sustainability. And when college campuses talk about going plastic-free, yes, they can convert their soda, yes, they can convert their beer, yes, they're starting to convert their water, but they never had an alternative for on-premise in terms of cups. Now they do. And so that's what we've been talking about, them using this as an opportunity to accelerate going plastic-free, that their customers being the students are asking for.

**Neel Kumar**

*Morgan Stanley, Research Division*

Great. That makes sense. And I was just wondering if you can also update us on how sustainability conversations with customers have been progressing in aerosol. I recall you mentioned those conversations start to surface in space in the first quarter this year. So any updates there will be helpful.

**John A. Hayes**

*Chairman, President & CEO*

Yes. As I said in the first quarter and kind of continues, there is discussion, but it's further behind the beverage category. I think sustainability and recycling in the personal care space is far more difficult. You have many more resins. You have many more colors within those resins. And so as they try and think about how they're going to deliver their products in a sustainable world, it's just taking longer. It's much, I don't say easier, but you can see they have a much more clean line of sight when you're talking beverages and you see what you need to do. I think it's a little bit more challenging when you get to the aerosol side. But we still think there's great potential, it's just we cannot point to you right now any specifics like we can in the beverage. Any specific in the aerosol side that we said that is a direct result of the sustainability.

**Neel Kumar**

*Morgan Stanley, Research Division*

Okay. And then just lastly, with specialty can growth of 13% and global volume growth of 5%, your portfolio mix is about 43% seems to imply that traditional can volumes came down during the quarter. Is that generally a fair characterization that all the growth came in specialty cans?

**Daniel William Fisher**

*Senior VP & COO of Global Metal Beverage Packaging*
Yes. Overwhelmingly yes. I mean, relatively flat, some slight declines especially in AMEA and Asia contributed to that, but almost overwhelmingly all the growth came from specialty, and that's what was reflected in that mix.

Operator

The next question is from the line of Brian Maguire with Goldman Sachs.

Brian P. Maguire  
*Goldman Sachs Group Inc., Research Division*

John, back at the Investor Day, which is like a long time ago now back in October. You talked about just one of the challenges in adoption of the cans historically was just the difference in the price point at the retail level between beverages bottles in PET, for example, versus aluminum cans. Just wondering, as you've seen this takeoff and growth, how you think customers are getting around that? And presumably input costs are up, you're doing a admirable job of renegotiating contracts to capture the value you guys create. Do you see customers being able to kind of price appropriately to maintain or improve margins on cans? And just in general, kind of how do you see the growth in specialty helping customers with that price conversation?

Daniel William Fisher  
*Senior VP & COO of Global Metal Beverage Packaging*

Hey, this is Dan. Good question. I think this lends itself to when I think when John was describing this, he's really talking about kind of core brands shifting out of high-margin packaging and it was established because a higher retail price that they put on those packages and plastic.

The growth that we're seeing is coming in specialty packages, new products. Those are still being launched by the large CPG companies and they're being launched at a far greater rate. I think we've even touched on it, it's basically 2x the amount of new product launches in both North America and in parts of Western Europe that are going into cans versus the historical rate of about 35%.

Those products they're able to garner a higher price point, which is not been much of a conversation because they are in some of these emerging categories like fitness energy, spiked seltzers. So they're able to step into cans with new products at really nice margins and although they probably won't say this, they won't say it publicly, they also don't want to compound an issue in their supply chain by putting more plastic into that supply chain, and that's why we are inferring there's absolutely a correlation to sustainability.

John A. Hayes  
*Chairman, President & CEO*

Yes. And the only thing I'd add on top of that is even with the existing brands, which I was specifically talk about. Dan is actually right. That's why specialty growth is growing so much. But let's not forget that many of our existing brands, they have put packaging in whether it's 7.5-ounce here in North America or 250 mL or 150 mL in Europe and they've been able to ride that price curve up to reduce and/or eliminate the retail price per fluid ounce delta between their plastic offerings and their specialty can offerings.

Brian P. Maguire  
*Goldman Sachs Group Inc., Research Division*

And your comments just about the forward-look on can opportunity to maybe take some share from other substrates in those traditional markets. Are we at the point where the concerns around customer perception on sustainability overwhelm the more challenging retail price point or the fact that cans cost more than plastic? You mentioned you haven't seen much benefit to date from substrate substitution, but the forward-look sounded positive there. Are we just seeing in your conversations with customers that really sustainability is trumping economics in these decisions?

Daniel William Fisher  
*Senior VP & COO of Global Metal Beverage Packaging*
They won't necessarily say that directly. But what we do know is the investments in cans filling lines are happening at a massively accelerated rate versus historical norms. And we also know that some of our major customers are putting in a lot more can filling capacity over the next 2 years. So the combination of those 2 would suggest that there's absolutely contemplation that they need to get out ahead of this for a potential move, whether it's regulation or they're willing to take a slight margin dilution by moving into aluminum.

John A. Hayes  
Chairman, President & CEO

I think in addition to all of that, I think there's a recognition that the consumer's requiring it. That's the most important thing. Okay, if we could maybe just have one more question.

Operator

In that case, sir, the final question is from the line of Chip Dillon with Vertical Research Partners.

Clyde Alvin Dillon  
Vertical Research Partners, LLC

I just had a quick one on the cup introduction that you're going to roll out. Obviously, the water bottle is very similar to an aluminum beverage can for beer, let's say. But the cup is a different concept. And I just didn't know if you were able to use similar machinery or if you had to go out and either put something together on your own or buy a different type of technology or set up equipment to make aluminum cups.

John A. Hayes  
Chairman, President & CEO

Yes. Great question. What I'd say is parts of it is similar, but a good chunk of it is very different. This has been in development for nearly 7 years within Ball, and we think there's a lot of proprietariness to this that we'd rather not disclose, but it's very easy to make cups when you're banging about 100 to 200 per minute, but the key is to do it at scale to get to a price point that actually opens up the market. We think we've done that. And that's why we started with the pilot. We wanted to test it with 3 or 4 weeks in the pilot. Things are working well with brand-new technology in parts of it and so I think that's what gives us a lot of hope. But it's similar, but different in making a beverage can.

Well, thank you very much for everyone's participation, and we look forward to a great second half of 2019 and as we go forward. Thank you, all, for your support.

Operator

That does include the conference call for today. We thank you all for your participation and ask that you please disconnect your line.
Forward-Looking Statements
This transcript contains "forward-looking" statements concerning future events and financial performance. Words such as "expects," "anticipates," "estimates," "believes," "targets," "likely," "positions" and similar expressions typically identify forward-looking statements, which are generally any statements other than statements of historical fact. Such statements are based on current expectations or views of the future and are subject to risks and uncertainties, which could cause actual results or events to differ materially from those expressed or implied. You should therefore not place undue reliance upon any forward-looking statements and any such statements should be read in conjunction with, and, qualified in their entirety by, the cautionary statements referenced below. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Key factors, risks and uncertainties that could cause actual outcomes and results to be different are summarized in filings with the Securities and Exchange Commission, including Exhibit 99 in our Form 10-K, which are available on our website and at www.sec.gov. Additional factors that might affect: a) our packaging segments include product demand fluctuations; availability/cost of raw materials and logistics; competitive packaging, pricing and substitution; changes in climate and weather; footprint adjustments and other manufacturing changes, including the startup of new facilities and lines; failure to achieve synergies, productivity improvements or cost reductions; mandatory deposit or other restrictive packaging laws; customer and supplier consolidation, power and supply chain interruptions; potential delays and tariffs related to the U.K.'s departure from the EU; changes in major customer or supplier contracts or a loss of a major customer or supplier; political instability and sanctions; currency controls; changes in foreign exchange or tax rates; and tariffs, trade actions, or other governmental actions in any country affecting products produced by us or in our supply chain, including imported raw materials, such as pursuant to section 232 of the U.S. Trade Expansion Act of 1962; b) our aerospace segment include funding, authorization, availability and returns of government and commercial contracts; and delays, extensions and technical uncertainties affecting segment contracts; c) the company as a whole include those listed plus: changes in senior management; regulatory action or issues including tax, environmental, health and workplace safety, including U.S. FDA and other actions or public concerns affecting products filled in our containers, or chemicals or substances used in raw materials or in the manufacturing process; technological developments and innovations; litigation; strikes; labor cost changes; rates of return on assets of the company's defined benefit retirement plans; pension changes; uncertainties surrounding geopolitical events and governmental policies both in the U.S. and in other countries, including the U.S. government elections, budget, sequestration and debt limit; reduced cash flow; interest rates affecting our debt; and successful or unsuccessful joint ventures, acquisitions and divestitures, including with respect to the Rexam PLC acquisition, its integration, the associated divestiture, and their effects on our operating results and business generally.