LyondellBasell Industries N.V.
Form 10-Q
July 27, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 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 number: **001-34726**

LYONDELLBASELL INDUSTRIES N.V.

(Exact name of registrant as specified in its charter)

The Netherlands	**98-0646235**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

Stationsplein 45

3013 AK Rotterdam

The Netherlands

(Address of principal executive offices)

31 10 275 5500

(Registrant s telephone number, including area code)

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 on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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]

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [x] No [ ]

The registrant had 574,954,832 ordinary shares, 0.04 par value, outstanding at July 24, 2012 (excluding 3,375,353 treasury shares).

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

LYONDELLBASELL INDUSTRIES N.V.

CONSOLIDATED STATEMENTS OF INCOME

Millions of dollars, except earnings per share	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Sales and other operating revenues:				
Trade	$ 11,005	$ 12,997	$ 22,452	$ 24,085
Related parties	243	309	530	601
	11,248	13,306	22,982	24,686
Operating costs and expenses:				
Cost of sales	9,561	11,704	20,093	21,741
Selling, general and administrative expenses	201	236	424	451
Research and development expenses	37	56	76	89
	9,799	11,996	20,593	22,281
Operating income	1,449	1,310	2,389	2,405
Interest expense	(411)	(176)	(510)	(339)
Interest income	2	13	6	20
Other income (expense), net	8	47	7	(3)
Income from continuing operations before equity investments, reorganization items and income taxes	1,048	1,194	1,892	2,083
Income from equity investments	27	73	73	131
Reorganization items	(1)	(28)	4	(30)
Income from continuing operations before income taxes	1,074	1,239	1,969	2,184
Provision for income taxes	306	388	607	651
Income from continuing operations	768	851	1,362	1,533
Income (loss) from discontinued operations, net of tax	- -	(48)	5	(70)
Net income	768	803	1,367	1,463
Net loss attributable to non-controlling interests	2	1	3	4
Net income attributable to the Company	$ 770	$ 804	$ 1,370	$ 1,467
Earnings (loss) per share:				
Net income (loss)				
Basic:				
Continuing operations	$ 1.34	$ 1.49	$ 2.37	$ 2.70
Discontinued operations	- -	(0.08)	0.01	(0.12)
	$ 1.34	$ 1.41	$ 2.38	$ 2.58
Diluted:				

Continuing operations	$ 1.33	$ 1.46	$ 2.36	$ 2.68
Discontinued operations	- -	(0.08)	0.01	(0.12)
	$ 1.33	$ 1.38	$ 2.37	$ 2.56

See Notes to the Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended June 30,		Six Months Ended June 30,	
Millions of dollars	**2012**	**2011**	**2012**	**2011**
Net income	$ 768	$ 803	$ 1,367	$ 1,463
Other comprehensive income, net of tax				
Defined benefit pension plan:				
Prior service cost arising during the period	1	1	2	3
Amortization of prior service cost included in net income	6	- -	12	- -
Income taxes on defined benefit plans	(2)	- -	(4)	- -
Defined benefit pension plan, net	5	1	10	3
Foreign currency translations adjustment:				
Unrealized net change arising during the period	(376)	126	(173)	502
Income taxes on foreign currency translation adjustments	- -	(1)	1	- -
Foreign currency translations, net of tax	(376)	125	(172)	502
Total other comprehensive income (loss)	(371)	126	(162)	505
Comprehensive income	397	929	1,205	1,968
Comprehensive loss attributable to non-controlling interest	2	1	3	4
Comprehensive income attributable to the Company	$ 399	$ 930	$ 1,208	$ 1,972

See Notes to the Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

Millions, except shares and par value data		**June 30, 2012**		**December 31, 2011**
ASSETS				
Current Assets:				
Cash and cash equivalents	$	1,950	$	1,065
Restricted cash		14		53
Accounts receivable:				
Trade, net		3,667		3,582
Related parties		221		196
Inventories		5,759		5,499
Prepaid expenses and other current assets		755		1,040
Total current assets		12,366		11,435
Property, plant and equipment, net		7,237		7,333
Investments and long-term receivables:				
Investment in PO joint ventures		411		412
Equity investments		1,521		1,559
Other investments and long-term receivables		70		72
Goodwill		576		585
Intangible assets, net		1,103		1,177
Other assets		261		266
Total assets	$	23,545	$	22,839

See Notes to the Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

Millions, except shares and par value data	**June 30, 2012**	**December 31, 2011**
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ - -	$ 4
Short-term debt	48	48
Accounts payable:		
Trade	2,169	2,562
Related parties	835	852
Accrued liabilities	915	1,242
Deferred income taxes	277	310
Total current liabilities	4,244	5,018
Long-term debt	4,305	3,980
Other liabilities	2,208	2,277
Deferred income taxes	1,245	917
Commitments and contingencies		
Stockholders equity:		
Ordinary shares, 0.04 par value, 1,275 million shares authorized, 574,795,762 and 573,390,514 shares outstanding, respectively	31	31
Additional paid-in capital	10,323	10,272
Retained earnings	1,838	841
Accumulated other comprehensive loss	(589)	(427)
Treasury stock, at cost, 3,534,424 and 4,051,013 ordinary shares, respectively	(111)	(124)
Total Company share of stockholders equity	11,492	10,593
Non-controlling interests	51	54
Total equity	11,543	10,647
Total liabilities and equity	$ 23,545	$ 22,839

See Notes to the Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
Millions of dollars	**2012**	**2011**
Cash flows from operating activities:		
Net income	$ 1,367	$ 1,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	481	439
Asset impairments	22	18
Amortization of debt-related costs	46	20
Inventory valuation adjustment	71	- -
Equity investments -		
Equity income	(73)	(131)
Distribution of earnings, net of tax	87	107
Deferred income taxes	351	316
Gain on sale of assets	(10)	(48)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(156)	(1,002)
Inventories	(379)	(619)
Accounts payable	(345)	1,140
Contributions to pension plans	(37)	(178)
Income tax refunds	288	- -
Prepaid expenses and other current assets	(77)	(96)
Other, net	(206)	(182)
Net cash provided by operating activities	1,430	1,247
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(461)	(482)
Proceeds from disposal of assets	10	70
Restricted cash	39	(239)
Other	(18)	- -
Net cash used in investing activities	(430)	(651)
Cash flows from financing activities:		
Shares issued upon exercise of warrants	1	37
Dividends paid	(373)	(57)
Issuance of long-term debt	3,000	- -
Repayments of long-term debt	(2,679)	(260)
Payments of debt issuance costs	(50)	(15)
Other, net	3	(4)
Net cash used in financing activities	(98)	(299)
Effect of exchange rate changes on cash	(17)	168
Increase in cash and cash equivalents	885	465
Cash and cash equivalents at beginning of period	1,065	4,222

Cash and cash equivalents at end of period	$ 1,950	$ 4,687

See Notes to the Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Millions of dollars	Ordinary Shares Issued	Ordinary Shares Treasury	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity	Non-Controlling Interests
Balance, January 1, 2012	$ 31	$ (124)	$ 10,272	$ 841	$ (427)	$ 10,593	$ 54
Net income (loss)	- -	- -	- -	1,370	- -	1,370	(3)
Other comprehensive loss	- -	- -	- -	- -	(162)	(162)	- -
Warrants exercised	- -	- -	38	- -	- -	38	- -
Shares purchased	- -	(12)	- -	- -	- -	(12)	- -
Share-based compensation	- -	25	13	- -	- -	38	- -
Cash dividends ($0.65 per share)	- -	- -	- -	(373)	- -	(373)	- -
Balance, June 30, 2012	$ 31	$ (111)	$ 10,323	$ 1,838	$ (589)	$ 11,492	$ 51

See Notes to the Consolidated Financial Statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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LYONDELLBASELL INDUSTRIES N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Basis of Presentation

LyondellBasell Industries N.V., together with its consolidated subsidiaries (collectively LyondellBasell N.V.), is a worldwide manufacturer of chemicals and polymers, a refiner of crude oil, a significant producer of gasoline blending components and a developer and licensor of technologies for production of polymers and other chemicals. When we use the terms Company, we, us, our or similar words, unless the conte otherwise requires, we are referring to LyondellBasell N.V.

The accompanying consolidated financial statements are unaudited and have been prepared from the books and records of LyondellBasell N.V. in accordance with the instructions to Form 10-Q and Rule 10-1 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States (U.S. GAAP) for complete financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for interim periods are not necessarily indicative of results for the entire year. These consolidated financial statements should be read in conjunction with the LyondellBasell N.V. consolidated financial statements and notes thereto included in the LyondellBasell Industries N.V. Annual Report on Form 10-K for the year ended December 31, 2011.

2. Accounting and Reporting Changes

Recently Adopted Guidance

Comprehensive Income In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, related to ASC Topic 220, *Comprehensive Income: Presentation of Comprehensive Income* and in December 2011 the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05*. These standards eliminate the current option to report other comprehensive income and its components in the statement of changes in equity. We elected to present Statements of Comprehensive Income in two separate but consecutive statements beginning January 1, 2012, and the amendments have been applied retrospectively for all prior periods presented.

Fair Value Measurement In May 2011, the FASB issued new guidance related to ASC Topic 820, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS) and changes some fair value measurement principles and disclosure requirements. This guidance aligns the fair value measurement of instruments classified within an entity s shareholders equity with the guidance for liabilities. As a result, entities are required to measure the fair value of their own equity instruments from the perspective of a market participant that holds the equity instruments as assets. This guidance also enhances disclosure requirements for recurring Level 3 fair value measurements to include quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures on the use of a nonfinancial asset measured or disclosed at fair value are required if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The ASU was effective for interim and annual periods beginning on or after December 15, 2011. The adoption of this amendment in 2012 did not have a material effect on the presentation of our consolidated financial statements.

LYONDELLBASELL INDUSTRIES N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounting Guidance Issued But Not Adopted as of June 30, 2012

Disclosures about Offsetting Assets and Liabilities In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. The standard requires disclosures to provide information to help reconcile differences in the offsetting requirements under U.S. GAAP and IFRS. The differences in the offsetting requirements account for a difference in the amounts presented in statements of financial position prepared in accordance with U.S. GAAP and IFRS. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position (balance sheet), as well as instruments similar to a master netting arrangement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. The ASU is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this amendment is not expected to have a material impact on the presentation of our Consolidated Balance Sheet.

3. Discontinued Operations

In September 2011, we announced our intention to initiate consultations with relevant employee Works Councils regarding a contemplated closure of our Berre refinery after receiving no offers to purchase the refinery. In connection with the intended closure, we recorded pre-tax charges totaling $136 million in the fourth quarter of 2011, primarily related to the estimated cost of the social plan for the affected employees. We reduced the estimated cost of the social plan by $14 million in the second quarter of 2012.

On January 4, 2012, operations at the Berre refinery were suspended.

During the three-month period ending June 30, 2012, the operations of the Berre refinery were deemed to have met the criteria for discontinued operations classification. As a result, the operations have been classified as discontinued operations, net of income taxes, in the Consolidated Statements of Income for all periods presented. The amounts included in Income (loss) from discontinued operations are summarized as follows:

Millions of dollars	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Sales and other operating revenues	$ 42	$ 736	$ 187	$ 1,608
Loss from discontinued operations before income taxes	$ (15)	$ (48)	$ (9)	$ (70)
Benefit from income taxes	(15)	- -	(14)	- -
Income (loss) from discontinued operations, net of tax	$ - -	$ (48)	$ 5	$ (70)

Income (loss) from discontinued operations includes benefits related to the liquidation of LIFO valued inventory of $7 million and $49 million for the three and six months ended June 30, 2012, respectively.

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LYONDELLBASELL INDUSTRIES N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the assets and liabilities of the Berre refinery that are included in the Consolidated Balance Sheets. These amounts were derived from historical financial information and adjusted to exclude intercompany receivables and payables between the Berre refinery and other subsidiaries of the Company.

Millions of dollars	June 30, 2012	December 31, 2011
Current assets related to discontinued operations:		
Accounts receivable trade, net	$ 36	$ 234
Inventories	75	222
Total current assets related to discontinued operations	$ 111	$ 456
Current liabilities related to discontinued operations:		
Accounts payable trade	$ 22	$ 158
Accrued liabilities	39	30
Total current liabilities related to discontinued operations	$ 61	$ 188
Long-term liabilities related to discontinued operations:		
Other liabilities	$ 71	$ 121
Total long-term liabilities related to discontinued operations	$ 71	$ 121

Future cash inflows will arise from the liquidation of on hand raw materials, intermediate and refined product inventories.

Future cash out flows will occur for activities associated with exit or disposal activities and for payments made to severed employees. Exit and disposal related costs are expected to be incurred for the next two years. Payments to the affected employees are expected to be substantially complete by 2019.

4. Accounts Receivable

Our allowance for doubtful accounts receivable, which is reflected in the Consolidated Balance Sheets as a reduction of accounts receivable, totaled $17 million and $16 million at June 30, 2012 and December 31, 2011, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Inventories

Inventories consisted of the following components:

Millions of dollars	June 30, 2012	December 31, 2011
Finished goods	$ 3,552	$ 3,544
Work-in-process	283	267
Raw materials and supplies	1,924	1,688
Total inventories	$ 5,759	$ 5,499

6. Property, Plant and Equipment, Goodwill and Intangible Assets

The components of property, plant and equipment, at cost, and the related accumulated depreciation were as follows:

Millions of dollars	June 30, 2012	December 31, 2011
Land	$ 296	$ 301
Manufacturing facilities and equipment	7,686	7,358
Construction in progress	744	785
Total property, plant and equipment	8,726	8,444
Less accumulated depreciation	(1,489)	(1,111)
Property, plant and equipment, net	$ 7,237	$ 7,333

During the first six months of 2012, we recognized impairment charges of $22 million, primarily related to damage to our LDPE plant in Wesseling, Germany resulting from an explosion in a reactor bay.

Depreciation and amortization expense is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions of dollars	2012	2011	2012	2011
Property, plant and equipment	$ 200	$ 184	$ 393	$ 351
Investment in PO joint ventures	7	8	15	15
Emission allowances	17	18	34	36
Various contracts	8	13	15	35
Technology, patent and license costs	7	- -	13	- -
Software costs	5	1	11	2

Total depreciation and amortization	$ 244	$ 224	$ 481	$ 439

Asset Retirement Obligations The liabilities recognized for all asset retirement obligations were $105 million and $123 million at June 30, 2012 and December 31, 2011, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill Goodwill decreased from $585 million at December 31, 2011 to $576 million at June 30, 2012 as a result of foreign exchange translation.

7. Investment in PO Joint Ventures

Changes in our investment in the U.S. and European PO joint ventures for 2012 and 2011 are summarized below:

Millions of dollars	U.S. PO Joint Venture	European PO Joint Venture	Total PO Joint Ventures
Investments in PO joint ventures - January 1, 2012	$ 274	$ 138	$ 412
Cash contributions	5	13	18
Depreciation and amortization	(11)	(4)	(15)
Effect of exchange rate changes	- -	(4)	(4)
Investments in PO joint ventures - June 30, 2012	$ 268	$ 143	$ 411
Investments in PO joint ventures - January 1, 2011	$ 291	$ 146	$ 437
Cash contributions	- -	2	2
Depreciation and amortization	(11)	(4)	(15)
Effect of exchange rate changes	- -	12	12
Investments in PO joint ventures - June 30, 2011	$ 280	$ 156	$ 436

8. Equity Investments

The changes in equity investments were as follows:

	Six Months Ended June 30,	
Millions of dollars	**2012**	**2011**
Beginning balance	$ 1,559	$ 1,587
Income from equity investments	73	131
Dividends received, gross	(87)	(114)
Currency exchange effects	(20)	50
Other	(4)	- -
Ending balance	$ 1,521	$ 1,654

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized income statement information and our share for the periods for which the respective Equity investments were accounted for under the equity method is set forth below:

	Three months ended June 30,			
	2012		2011	
Millions of dollars	**100%**	**Company Share**	**100%**	**Company Share**
Revenues	$ 3,175	$ 980	$ 3,113	$ 894
Cost of sales	(2,906)	(900)	(2,659)	(767)
Gross profit	269	80	454	127
Net operating expenses	(65)	(31)	(59)	(17)
Operating income	204	49	395	110
Interest income	3	1	6	2
Interest expense	(70)	(16)	(63)	(18)
Foreign currency translation	16	2	17	5
Loss from equity investments	(3)	(1)	(41)	(8)
Income before income taxes	150	35	314	91
Provision for income taxes	18	8	69	18
Net income	$ 132	$ 27	$ 245	$ 73

	Six Months Ended June 30,			
	2012		2011	
Millions of dollars	**100%**	**Company Share**	**100%**	**Company Share**
Revenues	$ 5,632	$ 1,888	$ 6,700	$ 2,133
Cost of sales	(5,095)	(1,721)	(5,829)	(1,876)
Gross profit	537	167	871	257
Net operating expense	(139)	(52)	(157)	(49)
Operating income	398	115	714	208
Interest income	3	1	6	2
Interest expense	(127)	(32)	(121)	(34)
Foreign currency translation	21	6	(22)	(5)
Income (loss) from equity investments	4	1	(31)	(5)
Income before income taxes	299	91	546	166
Provision for income taxes	52	18	122	35
Net income	$ 247	$ 73	$ 424	$ 131

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LYONDELLBASELL INDUSTRIES N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Debt

Long-term loans, notes and other long-term debt due to unrelated parties consisted of the following:

Millions of dollars	June 30, 2012	December 31, 2011
Senior Notes due 2017, $2,250 million, 8.0%	$ - -	$ 619
Senior Notes due 2017, 375 million, 8.0%	- -	134
Senior Notes due 2018, $3,240 million, 11.0%	- -	1,922
Senior Notes due 2019, $2,000 million, 5.0%	2,000	- -
Senior Notes due 2021, $1,000 million, 6.0%	1,000	1,000
Senior Notes due 2024, $1,000 million, 5.75%	1,000	- -
Guaranteed Notes, due 2027, $300 million, 8.1%	300	300
Other	5	9
Total	4,305	3,984
Less current maturities	- -	(4)
Long-term debt	$ 4,305	$ 3,980

Short-term loans, notes and other short-term debt due to unrelated parties consisted of the following:

Millions of dollars	June 30, 2012	December 31, 2011
$2,000 million Senior Revolving Credit Facility	$ - -	$ - -
$2,000 million Senior Secured Asset-Based Revolving Credit Facility	- -	- -
450 million European Receivables Securitization Facility	- -	- -
Financial payables to equity investees	8	10
Other	40	38
Total short-term debt	$ 48	$ 48

Long-Term Debt

5% and 5.75% Senior Notes In April 2012, LyondellBasell N.V. issued $2,000 million aggregate principal amount of 5% senior notes due 2019 and $1,000 million aggregate principal amount of 5.75% senior notes due 2024, each at an issue price of 100%. When issued, the 5% and 5.75% senior notes were guaranteed on a senior basis by generally all of our U.S. subsidiaries. The subsidiary guarantees were released on June 15, 2012 as a result of the repayment of our 8% and 11% senior notes described below.

8% and 11% Senior Notes In April 2012, we repaid a total of $2,606 million of our 8% and 11% senior notes, comprising $742 million of our 8% senior notes and $1,864 million of our 11% senior notes. In June 2012, we repaid the remaining outstanding amount of $70 million, comprising $13 million of our 8% senior notes and $57 million of our 11% senior notes. In connection with these repayments, we also paid premiums totaling $294 million. Capitalized debt issuance costs of $18 million related to the 8% and 11% senior notes were charged to interest expense in the second quarter of 2012. As a result of these repayments, the subsidiary guarantees of all of our senior debt, including the 5% and 5.75% senior notes discussed above and our 6% senior notes due 2021 were automatically released.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Amortization of debt issuance costs in the six months ended June 30, 2012 and 2011 resulted in amortization expense of $46 million and $20 million, respectively, which is included in interest expense in the Consolidated Statements of Income. These costs include the write off of unamortized debt issuance costs associated with the repayment of the 8% and 11% senior notes and the termination of the U.S. ABL Facility described below.

Short-Term Debt

Senior Revolving Credit Facility In May 2012, we entered into a five-year revolving credit facility (the Senior Revolving Credit Facility). The Senior Revolving Credit Facility may be used for dollar and euro denominated borrowings and to support up to $700 million of dollar and euro denominated letters of credit. The balance of outstanding borrowings and letters of credit under the facility may not exceed $2,000 million at any given time. We may, from time to time, request the total commitments available under the facility be increased to an aggregate amount not to exceed $2,500 million. We paid fees of $10 million related to the completion of this financing.

Borrowings under the facility bear interest at a Base Rate or LIBOR, plus an applicable margin. Additional fees are incurred for the average daily unused commitments.

At June 30, 2012, availability under this facility was $1,930 million. There were no borrowings outstanding under the facility and outstanding letters of credit totaled $57 million.

Obligations under the facility were guaranteed by our U.S. subsidiaries until those guarantees were released in June 2012 as a result of the repayment of our 8% and 11% senior notes, described above.

The facility contains customary covenants and warranties, including specified restrictions on indebtedness, liens, sale and leaseback transactions and a specified interest coverage ratio and consolidated leverage ratio.

U.S. ABL Facility In connection with the execution of the new revolving credit facility, we terminated our U.S. asset-based revolving credit facility (U.S. ABL Facility). All amounts owed by the borrowers under the U.S. ABL Facility have been repaid and the commitments under the U.S. ABL Facility have been terminated. In connection with the termination of this facility, $17 million of unamortized debt issuance costs were charged to interest expense in the second quarter of 2012.

At December 31, 2011, there were no borrowings outstanding under the U.S. ABL Facility, and outstanding letters of credit totaled $262 million.

Other At June 30, 2012 and 2011, our weighted average interest rates on outstanding short-term debt were 3.4% and 3.8%, respectively.

10. Derivative Financial Instruments

Cash Concentration Our cash equivalents are placed in high-quality commercial paper, money market funds and time deposits with major international banks and financial institutions.

Market Risks We are exposed to market risks, such as changes in commodity pricing, currency exchange rates and interest rates. To manage the volatility related to these exposures, we selectively enter into derivative transactions pursuant to our policies. Designation of the derivatives as fair-value or cash-flow hedges is performed on a specific exposure basis. Hedge accounting may or may not be elected with respect to certain short-term exposures. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged.

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Commodity Prices We are exposed to commodity price volatility related to anticipated purchases of natural gas, crude oil and other raw materials and sales of our products. We selectively use commodity swap, option, and futures contracts with various terms to manage the volatility related to these risks. Such contracts are generally limited to durations of one year or less. Cash-flow hedge accounting may be elected for these derivative transactions. When the duration of a derivative is short, hedge accounting generally would not be elected. When hedge accounting is not elected, the changes in fair value of these instruments are recorded in earnings. When hedge accounting is elected, gains and losses on these instruments are deferred in accumulated other comprehensive income (AOCI), to the extent that the hedge remains effective, until the underlying transaction is recognized in earnings.

The following table summarizes the pretax effect of settled commodity futures contracts charged directly to income:

	Settled Commodity Contracts Six Months Ended June 30, 2012		
Millions of dollars	**Gain (Loss) Recognized in Income**	**Volumes Settled**	**Volume Unit**
Futures:			
Gasoline	$ 10	187	million gallons
Heating oil	(1)	293	million gallons
Butane	(1)	12	million gallons
Crude oil	(8)	233	million gallons
	$ - -		

	Six Months Ended June 30, 2011		
	Gain (Loss) Recognized in Income	**Volumes Settled**	**Volume Unit**
Futures:			
Gasoline	$ 1	280	million gallons
Heating oil	4	293	million gallons
Crude oil	(1)	- -	million gallons
	$ 4		

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The estimated fair value and notional amounts of our open commodity futures contracts are shown in the table below:

	Open Commodity Contracts June 30, 2012				
		Notional Amounts			
Millions of dollars	Fair Value	Value	Volumes	Volume Unit	Maturity Dates
Futures:					
Gasoline	$ 27	$ 376	131	million gallons	August 2012
Heating oil	2	57	21	million gallons	August 2012
Butane	(39)	240	126	million gallons	October 2012 - February 2013
Crude oil	(5)	121	60	million gallons	August 2012 - September 2012
	$ (15)	$ 794			

	December 31, 2011				
		Notional Amounts			
	Fair Value	Value	Volumes	Volume Unit	Maturity Dates
Futures:					
Gasoline	$ 12	$ 34	12	million gallons	January 2012 - February 2012
Heating oil	1	54	19	million gallons	January 2012
Butane	(1)	22	12	million gallons	January 2012 - February 2012
	$ 12	$ 110			

Foreign Currency Rates We have significant operations in several countries. The functional currencies of our wholly owned subsidiaries through which our operations are conducted are primarily the U.S. dollar and the Euro. We enter into transactions denominated in other than the functional currencies of the Company. As a result, we are exposed to foreign currency risk on receivables and payables. We maintain risk management control policies intended to monitor foreign currency risk attributable to both the outstanding foreign currency balances and future commitments. These control policies involve the centralization of foreign currency exposure management, the offsetting of exposures and the estimating of expected impacts of changes in foreign currency rates on our earnings. We enter into foreign currency spot, forward and swap contracts to reduce the effects of our net currency exchange exposures. At June 30, 2012, foreign currency spot, forward and swap contracts in the notional amount of $723 million, maturing in July and August 2012, were outstanding. The fair values, based on quoted market exchange rates, resulted in net payables of $3 million and $12 million at June 30, 2012 and December 31, 2011, respectively.

For forward contracts that economically hedge recognized monetary assets and liabilities in foreign currencies, no hedge accounting is applied. Changes in the fair value of foreign currency forward contracts are reported in the Consolidated Statements of Income and offset the currency exchange results recognized on the assets and liabilities.

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Foreign Currency Gain (Loss) Other income, net, in the Consolidated Statements of Income reflected losses of $11 million and $9 million for the three and six months ended June 30, 2012, and a loss of $4 million and a gain of $6 million for the three and six months ended June 30, 2011, respectively.

Warrants We had warrants outstanding to purchase 111,565 ordinary shares as of June 30, 2012 and 1,000,223 ordinary shares as of December 31, 2011 at exercise prices of $13.77 per share. The fair values of the warrants were determined to be $3 million and $19 million at June 30, 2012 and December 31, 2011, respectively.

Derivatives The following table summarizes financial instruments outstanding as of June 30, 2012 and December 31, 2011 that are measured at fair value on a recurring basis. Refer to Note 11, *Fair Value Measurements,* for additional information regarding the fair value of derivative financial instruments.

		June 30, 2012		December 31, 2011	
Millions of dollars	**Balance Sheet Classification**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Assets at fair value					
Derivatives:					
Commodities	Prepaid expenses and other current assets	$ 433	$ 29	$ 88	$ 13
		$ 433	$ 29	$ 88	$ 13
Liabilities at fair value					
Derivatives:					
Commodities	Accrued liabilities	$ 361	$ 44	$ 22	$ 1
Warrants	Accrued liabilities	2	3	14	19
Foreign currency	Accrued liabilities	723	3	726	12
		$ 1,086	$ 50	$ 762	$ 32

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the pretax effect of derivative instruments charged directly to income:

	Effect of Financial Instruments			
	Three Months Ended June 30, 2012			
Millions of dollars	**Gain (Loss) Recognized in AOCI**	**Gain (Loss) Reclassified from AOCI to Income**	**Additional Gain (Loss) Recognized in Income**	**Income Statement Classification**
Derivatives not designated as hedges:				
Commodities	$ - -	$ - -	$ (25)	Cost of sales
Foreign currency	- -	- -	2	Other income (expense), net
	$ - -	$ - -	$ (23)	

	Three Months Ended June 30, 2011			
Millions of dollars	**Gain (Loss) Recognized in AOCI**	**Gain (Loss) Reclassified from AOCI to Income**	**Additional Gain (Loss) Recognized in Income**	**Income Statement Classification**
Derivatives not designated as hedges:				
Warrants	$ - -	$ - -	$ 6	Other income (expense), net
Commodities	- -	- -	3	Cost of sales
Foreign currency	- -	- -	1	Other income (expense), net
	$ - -	$ - -	$ 10	

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Millions of dollars	Gain (Loss) Recognized in AOCI	Gain (Loss) Reclassified from AOCI to Income	Additional Gain (Loss) Recognized in Income	Income Statement Classification
	Effect of Financial Instruments Six Months Ended June 30, 2012			
Derivatives not designated as hedges:				
Warrants	$ - -	$ - -	$ (10)	Other income (expense), net
Commodities	- -	- -	(16)	Cost of sales
Foreign currency	- -	- -	25	Other income (expense), net
	$ - -	$ - -	$ (1)	

Millions of dollars	Gain (Loss) Recognized in AOCI	Gain (Loss) Reclassified from AOCI to Income	Additional Gain (Loss) Recognized in Income	Income Statement Classification
	Six Months Ended June 30, 2011			
Derivatives not designated as hedges:				
Warrants	$ - -	$ - -	$ (53)	Other income (expense), net
Commodities	- -	- -	9	Cost of sales
Foreign currency	- -	- -	(1)	Other income (expense), net
	$ - -	$ - -	$ (45)	

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11. Fair Value Measurement

The following table presents the derivative financial instruments outstanding as of June 30, 2012 and December 31, 2011 that are measured at fair value on a recurring basis.

Millions of dollars	Fair value	Level 1	Level 2	Level 3
June 30, 2012:				
Assets at fair value				
Derivatives:				
Commodities	$ 29	$ - -	$ 29	$ - -
	$ 29	$ - -	$ 29	$ - -
Liabilities at fair value				
Derivatives:				
Commodities	$ 44	$ - -	$ 44	$ - -
Warrants	3	- -	3	- -
Foreign currency	3	- -	3	- -
	$ 50	$ - -	$ 50	$ - -
December 31, 2011:				
Assets at fair value				
Derivatives:				
Commodities	$ 13	$ - -	$ 13	$ - -
	$ 13	$ - -	$ 13	$ - -
Liabilities at fair value				
Derivatives:				
Commodities	$ 1	$ - -	$ 1	$ - -
Warrants	19	- -	19	- -
Foreign currency	12	- -	12	- -
	$ 32	$ - -	$ 32	$ - -

The fair value of all non-derivative financial instruments included in current assets, including cash and cash equivalents, restricted cash and accounts receivable, short-term debt and accounts payable, approximated the applicable carrying value due to the short maturity of those instruments.

There were no financial instruments measured on a recurring basis using Level 3 inputs during the six months ended June 30, 2012 and 2011.

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The carrying value and the estimated fair value of our non-derivative financial instruments are shown in the table below:

	June 30, 2012		December 31, 2011	
Millions of dollars	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Short and long-term debt, including current maturities	$ 4,348	$ 4,660	$ 4,026	$ 4,294

The following table presents short and long-term debt at fair value which are recorded at historical cost or amortized cost in the Consolidated Balance Sheet. The carrying and fair value of long-term debt excludes capital leases.

	June 30, 2012				
Millions of dollars	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Short-term debt	$ 48	$ 48	$ - -	$ 9	$ 39
Long-term debt	4,300	4,612	- -	4,612	- -
Short term and long-term debt, including current maturities	$ 4,348	$ 4,660	$ - -	$ 4,621	$ 39

	December 31, 2011				
Millions of dollars	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Short-term debt	$ 48	$ 48	$ - -	$ 10	$ 38
Long-term debt	3,978	4,246	- -	4,243	3
Short term and long-term debt, including current maturities	$ 4,026	$ 4,294	$ - -	$ 4,253	$ 41

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12. Pension and Other Post-retirement Benefits

Net periodic pension benefits included the following cost components:

	U.S. Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
Millions of dollars	2012	2011	2012	2011
Service cost	$ 11	$ 9	$ 23	$ 20
Interest cost	19	22	39	45
Expected return on plan assets	(29)	(26)	(59)	(52)
Amortization	5	- -	10	- -
Net periodic benefit costs	$ 6	$ 5	$ 13	$ 13

	Non-U.S. Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
Millions of dollars	2012	2011	2012	2011
Service cost	$ 6	$ 12	$ 17	$ 21
Interest cost	13	17	25	29
Expected return on plan assets	(7)	(16)	(13)	(23)
Settlement and curtailment loss	- -	4	- -	6
Amortization	- -	2	1	2
Net periodic benefit costs	$ 12	$ 19	$ 30	$ 35

Net periodic other post-retirement benefits included the following cost components:

	U.S. Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
Millions of dollars	2012	2011	2012	2011
Service cost	$ 1	$ 1	$ 2	$ 5
Interest cost	4	4	7	8
Amortization	- -	- -	1	- -
Net periodic benefit costs	$ 5	$ 5	$ 10	$ 13

	Non-U.S. Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
Millions of dollars	**2012**	**2011**	**2012**	**2011**
Service cost	$ (1)	$ 3	$ - -	$ 5
Net periodic benefit costs	$ (1)	$ 3	$ - -	$ 5

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The Company contributed $37 million to its pension plans during the six months ended June 30, 2012, which consisted of $34 million and $3 million to its U.S. and non-U.S. pension plans, respectively.

13. Income Taxes

The effective tax rate for the second quarter of 2012 was 28.5% compared with 31.3% for the second quarter of 2011. For the first six months of 2012, the effective tax rate was 30.8% compared with 29.8% for the first six months of 2011. Our effective tax rate fluctuates based on, among other factors, pretax income in countries with lower statutory tax rates, nontaxable income related to joint venture equity earnings, notional royalties, the U.S. domestic production activity deduction, changes in valuation allowance and unrecognized tax benefits. Compared with the second quarter of 2011, the effective tax rate for the second quarter of 2012 was lower due to deductible foreign currency offset with increases in unrecognized tax benefits. The second quarter effective tax rate was also favorably affected by lower earnings in jurisdictions with higher tax rates. When comparing differences wit