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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 8-K

**CURRENT REPORT**

**Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934**

Date of Report
(Date of earliest event reported)
**November 22, 2004**

# OWENS-ILLINOIS, INC.

(Exact name of registrant as specified in its charter)

| **Delaware** | **1-9576** | **22-2781933** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| **One Seagate, Toledo, Ohio** | **43666** |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code:
**(419) 247-5000**

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 8.01 Other Events**

In connection with a proposed financing by Owens-Brockway Glass Container Inc., a wholly-owned subsidiary of Owens-Illinois, Inc., Owens-Illinois, Inc. is providing the following information in compliance with Regulation FD.

***Restatement.*** On October 7, 2004, Owens-Illinois, Inc., a Delaware corporation (the "**Company**"), announced that it had completed the sale of its blow-molded plastic container operations in North America, South America and Europe (the "**Plastics Operations**") to Graham Packaging Company, L.P. for approximately $1.2 billion (the "**Disposition**"). In connection with the Disposition and pursuant to FAS No. 144, beginning with the Company's Quarterly Report on Form 10-Q for period ended September 30, 2004 (the "**Quarterly Report**"), filed with the Securities and Exchange Commission on November 9, 2004, the Company initiated a reclassification of the presentation of the results of operations of the Plastics Operations (the "**Presentation Reclassification**"). The Presentation Reclassification generally gave effect to the treatment of the results of operations of the Plastics Operations as discontinued operations of the Company. The Company has restated its Consolidated Financial Statements for the nine month periods ended September 30, 2004 and 2003 and the three year period ended December 31, 2003, in order to conclude the process of the Presentation Reclassification (the "**Restatement**"). The Company has presented in Exhibits attached to this Form 8-K the following information giving effect to each of the Presentation Reclassification and the Restatement, and in each case for the nine month periods ended September 30, 2004 and 2003 and the three year period ended December 31, 2003: (i) Selected Consolidated Financial Data; (ii) Management's Discussion and Analysis of Financial Condition and Results of Operations; and (iii) Consolidated Financial Statements for the nine month periods ended September 30, 2004 and 2003 and the three year period ended December 31, 2003 (together, the "**Restated Data**"). The Restated Data are each filed as Exhibits to this Form 8-K and are incorporated herein by reference.

***Business Description.*** The Company has updated and revised the description of its business, a copy of which is filed as an Exhibit to this Form 8-K and is incorporated herein by reference.

***Recent Lawsuit.*** On November 15, 2004, a lawsuit was filed against the Company in the Delaware Court of Chancery by a shareholder, Joseph Sitorsky, pursuant to Section 220 of the Delaware General Corporation Law, captioned Sitorsky v. Owens-Illinois, Inc. Mr. Sitorsky seeks an order compelling the Company to produce several categories of documents for his review, generally described in written demands. The categories include documents concerning advisory fees paid to KKR Associates, L.P., the acquisition of BSN Glasspack S.A., the Disposition, due diligence in connection with the Company's contract with software vendor, Model N, an alleged affiliate of KKR, and executive compensation. The Company believes that Mr. Sitorsky has not made a proper demand under Section 220 or otherwise established a right to compel review of the Company's documents, and the Company intends to defend the action vigorously.

***Fourth Quarter 2004.*** While the Company has only preliminary data with respect to projected fourth quarter results of operations, it currently expects strong free cash flow generation from its operations and from fourth quarter transactions, specifically, cash provided by the Disposition, the sale of its 20% equity interest in Consol Limited in South Africa, and a special dividend from the recent recapitalization of its equity interests in several specialty glass companies in Italy. As a result of these cash generation activities, the Company expects total debt at December 31, 2004 to be approximately $5.3 billion. Reported earnings in the fourth quarter will be impacted by the accounting effects of several unusual noncash items which cannot be determined at this time, including: a charge for restructuring a life insurance program in order to comply with recent statutory and tax regulation changes; a possible adjustment of the accrued liability for asbestos-related costs in connection with the comprehensive annual review; a possible adjustment in the valuation of deferred tax assets following an assessment of the effects of the Disposition; a possible write-off of prepaid pension assets for U.S. retirement plans if a minimum liability is required; and a potential gain resulting from tax consolidation among the Company's Australian operations. Excluding these items and reflecting the absence of equity earnings in the fourth quarter from its divested Consol equity interest, the Company, based on preliminary data, is currently forecasting earnings in the range of $0.21 to $0.23 per share for the fourth quarter of 2004, compared to $0.04 per share (exclusive of charges totaling $7.37 per share) for the fourth quarter of 2003. The Company cannot estimate GAAP earnings per share at this time. The Company does not intend to update this forecast; actual results for the fourth quarter of 2004, including the approximation of debt, may differ from this forecast, and as a result it cannot make assurances that its earnings will fall within this range.

***KKR Sale of Common Stock.*** In October 2003, the Company filed a shelf registration statement to allow KKR Associates, L.P., which currently owns (through three limited partnerships) approximately 25% of the Company's outstanding shares of common stock, to sell those shares. KKR Associates has owned the shares since 1987. Recently, KKR Associates asked the Company to assist it in connection with an underwritten public offering of all or a portion of those shares that is expected to commence shortly and close in early December. The completion of this offering will depend upon a number of factors, including general market conditions and other factors that KKR Associates may deem relevant.

**Item 9.01 Financial Statements and Exhibits.**

| No. | Description |
|---|---|
| 23.1 | Consent of Ernst & Young LLP, independent registered public accounting firm |
| 99.1 | Selected Financial Data |
| 99.2 | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| 99.3 | Consolidated Financial Statements for the nine month periods ended September 30, 2004 and 2003 and the three year period ended December 31, 2003 |
| 99.4 | Business |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: November 22, 2004

OWENS-ILLINOIS, INC.
(Registrant)

By: /s/ MATTHEW G. LONGTHORNE

Name: Matthew G. Longthorne
Title: Vice President and Controller

## EXHIBIT INDEX

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**EXHIBIT 23.1**

**OWENS-ILLINOIS, INC.**
**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-47519) and in the Registration Statement (Form S-3 No. 333-109602) and in the related Prospectus of Owens-Illinois, Inc., in the Registration Statement (Form S-8 No. 333-69624) pertaining to the Amended and Restated Owens-Illinois, Inc. Stock Purchase and Savings Program, the Amended and Restated Owens-Illinois, Inc. Long-Term Savings Plan, and the Owens-Illinois de Puerto Rico Long-Term Savings Plan, in the Registration Statement (Form S-8 No. 33-44252) pertaining to the Amended and Restated Stock Option Plan for Key Employees of Owens-Illinois, Inc., in the Registration Statement (Form S-8 No. 33-57141) pertaining to the Stock Option Plan for Directors of Owens-Illinois, Inc., in the Registration Statement (Form S-8 No. 333-47691) pertaining to the Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc., and in the Registration Statement (Form S-3 No. 333-99741) pertaining to the Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc. of our report dated January 26, 2004, except for Note 23 as to which the date is November 12, 2004, with respect to the consolidated financial statements and schedule of Owens-Illinois, Inc. for the year ended December 31, 2003, included in this Form 8-K.

/s/ ERNST & YOUNG LLP

Ernst & Young LLP

Toledo, Ohio
November 22, 2004

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OWENS-ILLINOIS, INC. CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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**Exhibit 99.1**

# SELECTED FINANCIAL DATA
## OWENS-ILLINOIS, INC.

| | Years ended December 31, | | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2004 | 2003 |
| | (Dollar amounts in millions, except per share data) | | | | |
| Consolidated operating results (a): | | | | | |
| Net sales | $ 4,975.6 | $ 4,621.2 | $ 4,343.7 | $ 4,402.7 | $ 3,711.5 |
| Other revenue (b) | 90.2 | 110.0 | 599.2 | 82.2 | 64.7 |
| | 5,065.8 | 4,731.2 | 4,942.9 | 4,484.9 | 3,776.2 |
| Costs and expenses: | | | | | |
| Manufacturing, shipping and delivery | 3,967.9 | 3,572.9 | 3,359.3 | 3,543.3 | 2,942.8 |
| Research, engineering, selling, administrative and other (c) | 1,106.1 | 848.6 | 572.4 | 321.9 | 393.1 |
| Interest expense (d) | 429.8 | 372.2 | 360.3 | 324.4 | 324.9 |
| Earnings (loss) from continuing operations before items below | (438.0) | (62.5) | 650.9 | 295.3 | 115.4 |
| Provision (credit) for income taxes (e) | (133.7) | (49.8) | 266.4 | 82.7 | 36.7 |
| Minority share owners' interests in earnings of subsidiaries | 25.8 | 25.5 | 19.5 | 22.2 | 16.7 |
| Earnings (loss) from continuing operations before cumulative effect of accounting change | (330.1) | (38.2) | 365.0 | 190.4 | 62.0 |
| Net earnings (loss) of discontinued operations | (660.7) | 38.0 | (8.4) | 9.6 | 18.3 |
| Cumulative effect of accounting change (f) | | (460.0) | | | |
| Net earnings (loss) | $ (990.8) | $ (460.2) | $ 356.6 | $ 200.0 | $ 80.3 |
| Basic net earnings per share of common stock: | | | | | |
| Earnings (loss) from continuing operations | $ (2.39) | $ (0.41) | $ 2.36 | $ 1.18 | $ 0.31 |
| Net earnings (loss) of discontinued operations | (4.50) | 0.26 | (0.06) | 0.06 | 0.13 |
| Cumulative effect of accounting change | | (3.14) | | | |
| Net (loss) earnings | $ (6.89) | $ (3.29) | $ 2.30 | $ 1.24 | $ 0.44 |
| Weighted average shares outstanding (thousands) | 146,914 | 146,616 | 145,456 | 147,561 | 146,894 |
| Diluted net earnings (loss) per share of common stock: | | | | | |
| Earnings (loss) from continuing operations | $ (2.39) | $ (0.41) | $ 2.36 | $ 1.17 | $ 0.31 |
| Net earnings (loss) of discontinued operations | (4.50) | 0.26 | (0.06) | 0.06 | 0.13 |
| Cumulative effect of accounting change | | (3.14) | | | |
| Net earnings (loss) | $ (6.89) | $ (3.29) | $ 2.30 | $ 1.23 | $ 0.44 |
| Weighted diluted average shares (thousands) | 146,914 | 146,616 | 145,661 | 149,098 | 147,624 |

| | Years ended December 31, | | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2004 | 2003 |
| | (Dollar amounts in millions) | | | | |
| Other data: | | | | | |
| The following are included in earnings (loss) from continuing operations before cumulative effect of accounting change: | | | | | |
| Depreciation | $ 391.9 | $ 353.4 | $ 335.9 | $ 319.2 | $ 289.4 |
| Amortization of goodwill | | | 55.9 | | |
| Amortization of intangibles | 21.4 | 21.5 | 21.8 | 17.6 | 14.9 |
| Amortization of deferred finance fees (included in interest expense) | 14.4 | 16.1 | 15.0 | 10.2 | 10.3 |
| Balance sheet data (at end of period): | | | | | |
| Working capital (current assets less current liabilities) | $ 758 | $ 590 | $ 756 | $ 537 | $ 809 |
| Total assets | 9,531 | 9,869 | 10,107 | 11,397 | 10,244 |
| Total debt | 5,426 | 5,346 | 5,401 | 6,587 | 5,502 |
| Share owners' equity | 1,003 | 1,671 | 2,152 | 1,202 | 1,924 |

(a) Amounts related to the Company's plastic blow-molded container business have been reclassified to discontinued operations as a result of the October 2004 sale of that business. Amounts for the nine months ended September 30, 2004 include the results of BSN from the date of its acquisition on June 21, 2004.

(b) Amount for 2004 includes a gain of $20.6 million ($14.5 million after tax) for the sale of certain real property.

Amount for 2001 includes: (1) a gain of $457.3 million ($284.4 million after tax) related to the sale of the Harbor Capital Advisors business and (2) gains totaling $13.1 million ($12.0 million after tax) related to the sale of the label business and the sale of a minerals business in Australia.

(c) Amount for 2003 includes charges totaling $244.2 million ($198.0 million after tax) and amount for the nine months ended September 30, 2003, includes charges totaling $103.3 million ($78.6 million after tax). Amounts for the year ended December 31, 2003 and the nine months ended September 30, 2003, include charges for the following: (1) $450.0 million ($292.5 million after tax) to increase the reserve for estimated future asbestos-related costs; (2) $37.4 million (pretax and after tax) for the loss on the sale of long-term notes receivable; (3) $37.4 million ($23.4 million after tax) for the estimated loss on the sale of certain closures assets; and (4) $28.5 million ($17.8 million after tax) for the permanent closure of the Hayward, California glass container factory. In addition, the amount for the year ended December 31, 2003, includes fourth quarter charges for the following: (1) $50.0 million (pretax and after tax) write-down of an equity investment in a soda ash mining operation; (2) $43.0 million ($30.1 million after tax) for the write-down of Plastics Packaging assets in the Asia Pacific region; (3) $23.9 million ($17.4 million after tax) for the shutdown of the Perth, Australia glass container factory; (4) $20.1 million ($19.5 million after tax) for the shutdown of the Milton, Ontario glass container factory; and (5) $3.9 million ($2.4 million after tax) for an additional loss on the sale of certain closures assets.

Amounts for 2002 includes $475.0 million ($308.8 million after tax) to increase the reserve for estimated future asbestos-related costs.

Amount for 2001 includes: (1) charges of $66.1 million ($55.3 million after tax and minority share owners' interests) related to restructuring and impairment charges at certain of the Company's international glass operations, principally Venezuela and Puerto Rico, as well as certain other domestic and international operations; (2) a charge of $31.0 million (pretax and after tax) related to the loss on the sale of the Company's facilities in India; (3) charges of $28.7 million ($18.0 million after tax) related to special employee benefit programs; and (4) a charge of $7.9 million ($4.9 million after tax) related to restructuring manufacturing capacity in the medical devices business.

(d) Amounts for the year ended December 31, 2003, and the nine months ended September 30, 2003, include a charge of $13.2 million ($8.2 million after tax) for note repurchase premiums.

Amount for 2001 includes a net interest charge of $4.0 million ($2.8 million after tax) related to interest on the resolution of the transfer of pension assets and liabilities for a previous acquisition and divestiture.

Includes additional interest charges for the write off of unamortized deferred financing fees related to the early extinguishment of debt as follows: 2003—$1.3 million ($0.9 million after tax); 2002—$9.1 million ($5.7 million after tax); 2001—$4.7 million ($2.9 million after tax).

(e) Amount for 2001 includes a $6.0 million charge to adjust tax liabilities in Italy as a result of a change in legislation.

(f) On January 1, 2002, the Company adopted Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS No. 142"). As required by FAS No. 142, the Company changed its method of accounting for goodwill and discontinued amortization of goodwill effective January 1, 2002. Also as required by FAS No. 142, the transitional goodwill impairment loss of $460.0 million is recognized as the cumulative effect of a change in method of accounting.

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[SELECTED FINANCIAL DATA OWENS-ILLINOIS, INC.]

**Exhibit 99.2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF OWENS-ILLINOIS, INC.**

***Executive Summary—Nine months ended September 30, 2004 and 2003***

For the nine months ended September 30, 2004, the Company reported earnings from continuing operations of $190.4 million, or $128.4 million higher than the first nine months of 2003 earnings from continuing operations of $62.0 million. The first nine months of 2004 earnings included an after tax gain on the sale of certain real property that increased earnings by $14.5 million ($20.6 million pretax). The first nine months of 2003 earnings were reduced by the following: (1) an after tax charge of $9.1 million ($14.5 million pretax) for note repurchase premiums and write-off of finance fees, (2) an after tax charge of $37.4 million ($37.4 million pretax) from the loss on the sale of long-term notes receivable, (3) an after tax charge of $23.4 million ($37.4 million pretax) for the estimated loss on the sale of certain closure assets, and (4) an after tax charge of $17.8 million ($28.5 million pretax) for the permanent closure of a glass container factory. The first nine months of 2004 benefited from improved pricing in glass containers and plastics packaging, improved shipments, productivity improvements and overhead cost reductions. The first nine months of 2004 included the step-up effect of the finished goods inventory acquired from the acquisition of BSN Glasspack late in the second quarter of 2004 that reduced gross profit by approximately $31.1 million. The first nine months of 2004 earnings were also reduced by higher energy costs and reduced pension income. Net earnings of $200.0 million and $80.3 million for the first nine months of 2004 and 2003, respectively, reflect earnings from discontinued operations of $9.6 million and $18.3 million for the first nine months of 2004 and 2003, respectively.

At September 30, 2004, the Company had total assets of $11.4 billion compared with total assets of $10.2 billion at September 30, 2003. The total assets at September 30, 2004 included $280.8 million of current assets and $921.2 million of non-current assets that related to the discontinued operations discussed further below. The statement of financial position also included $122.4 million of current liabilities and $44.8 million of non-current liabilities at September 30, 2004 that related to the discontinued operations.

***Results of Operations—Comparison of nine months ended September 30, 2004 with nine months ended September 30, 2003***

*Net Sales*

The Company's net sales by segment (dollars in millions) for the first nine months of 2004 and 2003 are presented in the following table. The Plastics Packaging amounts reflect the continuing operations and therefore, the results of the discontinued operations have been reclassified from the 2004 and 2003 amounts. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

| | 2004 | 2003 |
|---|---|---|
| Glass Containers | $ 3,826.1 | $ 3,116.5 |
| Plastics Packaging | 576.6 | 595.0 |
| Segment and consolidated net sales | $ 4,402.7 | $ 3,711.5 |

Consolidated net sales for the nine months of 2004 increased $691.2 million, or 18.6%, to $4,402.7 million from $3,711.5 million in the first nine months of 2003.

Net sales of the Glass Containers segment increased $709.6 million, or 22.8%, over the first nine months of 2003. In North America, sales for the first nine months of 2004 were $31.6 million higher than sales the first nine months of 2003. The higher sales resulted principally from increased selling prices as unit shipments declined by about 2% overall. The decrease in unit shipments was more than accounted for by the previously disclosed loss of a beverage container customer. Shipments of beer and malt beverage containers in the first nine months increased by approximately 5% from the first nine months of 2003 primarily due to the increase in business from a significant malt beverage customer. Shipments of containers for wine and spirits were also higher for the first nine months of 2004; however shipments of containers for tea, juice and other beverages were lower. The combined U.S. dollar sales of the segment's operations outside of North America increased $678.0 million over the first nine months of 2003. The increase resulted from a number of factors, including: (1) the additional sales from the acquired BSN businesses; (2) improved prices in South America, Europe and the Asia Pacific region; (3) improved product sales mix Europe; and (4) currency translation.

The change in net sales for the Glass Containers segment can be summarized as follows:

| | | |
|---|---|---|
| 2003 Net sales—Glass Containers segment | | $ 3,116.5 |
| Additional sales from BSN businesses | $ 415.9 | |
| The effects of sales volume, price and mix | 157.4 | |
| The effects of changing foreign currency rates on net sales in Europe and Asia Pacific | 133.5 | |
| The effects of changing foreign currency rates on net sales in South America | (4.4) | |
| Other | 7.2 | |
| Total net effect on sales | | 709.6 |
| 2004 Net sales—Glass Containers segment | | $ 3,826.1 |

Net sales of the Plastics Packaging segment decreased $18.4 million, or 3.1%, from the first nine months of 2003. The lower sales reflected the absence of sales from certain closures assets that were divested in the fourth quarter of 2003 and Asia Pacific plastic operations that were divested in the second quarter of 2004. Increased resin prices passed through to customers and stronger currencies in Europe and the Asia Pacific region partially offset these reductions.

The change in net sales for the Plastics Packaging segment can be summarized as follows:

| | | |
|---|---|---|
| 2003 Net sales—Plastics Packaging segment | | $ 595.0 |
| Divested businesses | $ (62.7) | |
| Effects of higher resin cost pass-throughs | 10.5 | |
| The effects of changing foreign currency rates on net sales in Europe and Asia Pacific | 19.1 | |
| The effects of changing foreign currency rates on net sales in South America | (3.6) | |
| Other | 18.3 | |
| Total net effect on sales | | (18.4) |
| 2004 Net sales—Plastics Packaging segment | | $ 576.6 |

*Segment Operating Profit*

The Company's measure of profit for its reportable segments is Segment Operating Profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, provision for income taxes and minority share owners' interests in earnings of subsidiaries and excludes amounts related to certain items that management considers not representative of ongoing operations.

The Company's management uses Segment Operating Profit, in combination with selected cash flow information, to evaluate performance and to allocate resources.

Operating Profit for product segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. For the Company's U.S. pension plans, net periodic pension cost (credit) has been allocated to product segments. The information below is presented on a continuing operations basis, and therefore, the prior period amounts for Plastics Packaging have been restated to remove the discontinued operations. In addition, certain Glass Container amounts from prior year have been reclassified to conform to current year presentation. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

| | 2004 | 2003 |
|---|---|---|
| Glass Containers | $ 564.8 | $ 516.9 |
| Plastics Packaging | 95.3 | 74.4 |
| Eliminations and other retained items | (71.2) | (65.0) |

Segment Operating Profit of the Glass Containers segment for the first nine months of 2004 increased $47.9 million, or 9.3%, to $564.8 million, compared with Segment Operating Profit of $516.9 million in the first nine months of 2003. In North America, Segment Operating Profit for the first nine months of 2004 decreased $16.9 million from the first nine months of 2003. The benefits of higher selling prices and a more favorable product sales mix were more than offset by a number of unfavorable effects, including: (1) lower production resulting from increased furnace repair activity this year and to control inventories consistent with the Company's working capital goals; (2) increased freight expense reflecting higher diesel fuel costs; and (3) a reduction in pension income. Also contributing to this decline was a 2% decline in unit shipments that was the result of the previously disclosed loss of a beverage customer. This decline in shipments of beverage containers was partially offset by increased shipments of containers for beer, wine, and liquor. The combined U.S. dollar Segment Operating Profit of the segment's operations outside North America increased $64.9 million over the first nine months of 2003. The increase was partially attributed to overall improved pricing in Europe and the Asia Pacific region, improved productivity in South America and Europe as well as increased shipments in South America, Europe and the Asia Pacific region. These increases were partially offset by increased energy costs in Europe and the Asia Pacific region. The Segment Operating Profit contribution from BSN for the first nine months of 2004 includes a reduction in gross profit of $31.1 million related to the impact of the acquisition step-up of BSN finished goods inventory as required by SFAS No. 141.

The change in Segment Operating Profit for the Glass Containers segment can be summarized as follows:

| | | |
|---|---|---|
| 2003 Segment Operating Profit—Glass Containers | | $ 516.9 |
| The effects of sales volume, price and mix | $ 81.7 | |
| Additional Segment Operating Profit from BSN businesses | 0.5 | |
| Increased delivery, warehouse and shipping costs | (16.2) | |
| Higher energy costs | (9.1) | |
| Lower pension income | (18.3) | |
| The effects of changing foreign currency rates on Segment Operating Profit in Europe and Asia Pacific | 25.0 | |
| The effects of changing foreign currency rates on Segment Operating Profit in South America | (2.9) | |
| Other | (12.8) | |
| Total net effect on Segment Operating Profit | | 47.9 |
| 2004 Segment Operating Profit—Glass Containers | | $ 564.8 |

Segment Operating Profit of the Plastics Packaging segment for the first nine months of 2004 increased $20.9 million, or 28.1%, to $95.3 million compared with Segment Operating Profit of $74.4 million in the first nine months of 2003. The increase is primarily attributable to improved productivity and higher unit shipments. These increases were partially offset by higher delivery, warehouse, shipping and other manufacturing costs, as well as lower pension income.

The change in Segment Operating Profit for the Plastics Packaging segment can be summarized as follows:

| | | |
|---|---|---|
| 2003 Segment Operating Profit—Plastics Packaging | | $ 74.4 |
| The effects of improved productivity | $ 4.4 | |
| The effects of increased sales volume | 7.5 | |
| Increased delivery, warehouse, shipping and other manufacturing costs | (3.8) | |
| Lower pension income | (1.7) | |
| The non-recurrence of a write-off of miscellaneous assets | 4.0 | |
| Other | 10.5 | |
| Total net effect on Segment Operating Profit | | 20.9 |
| 2004 Segment Operating Profit—Plastics Packaging | | $ 95.3 |

Eliminations and other retained items for the first nine months of 2004 were $6.2 million higher than the first nine months of 2003. A $1.5 million reduction in pension income, higher legal and professional services costs in the first quarter of 2004 resulting in part from compliance with the Sarbanes-Oxley Act of 2002 and higher retention of property and casualty losses were the primary reasons for the increase. These increases were partially offset by lower spending on information systems costs as compared to prior year.

*Interest Expense*

Interest expense decreased to $324.4 million for the first nine months of 2004 from $324.9 million for the first nine months of 2003. Interest expense for the first nine months of 2004 included the write-off of finance fees of $2.7 million. Interest expense for the first nine months of 2003 included note repurchase premiums and the write-off of finance fees totaling $14.5 million. Excluding these charges, interest expense increased $11.3 million. The higher interest in 2004 reflects additional interest

as a result of higher debt related to the BSN Acquisition. Partially offsetting this increase were lower interest expense that was principally the result of savings from the December 2003 repricing of the secured credit agreement and approximately $17 million in interest savings as a result of the Company's fixed-to-floating interest rate swap on a portion of its fixed-rate debt.

*Minority Share Owners' Interest in Earnings of Subsidiaries*

Minority share owners' interest in earnings of subsidiaries for the first nine months of 2004 was $22.2 million compared to $16.7 million for the first nine months of 2003. The increase is primarily attributed to higher earnings from the Company's operations in Venezuela and Brazil.

*Provision for Income Taxes*

The Company's effective tax rate, for continuing operations, in the first nine months of 2004 was 27.9%, the same as the 27.9% rate for the full year 2003 (excluding separately taxed items).

***Executive Overview—Year ended December 2003 and 2002***

For the year ended December 31, 2003, the Company reported a loss from continuing operations of $330.1 million, or $291.9 million lower than the year ended December 31, 2002 loss from continuing operations before cumulative effect of accounting change of $38.2 million.

The following items reduced 2003 results as compared to 2002 results:

- The write-down of plastics packaging assets in the Asia Pacific region that reduced earnings by $30.1 million ($43.0 million pretax)
- The loss on the sale of long-term notes receivable that reduced earnings by $37.4 million ($37.4 million pretax)
- The loss on the sale of certain closure assets that reduced earnings by $25.8 million ($41.3 million pretax)
- The shutdown of three glass container factories in Hayward, California, Milton, Ontario and Perth, Australia that reduced earnings by $54.7 million ($72.5 million pretax)
- The write-down of an equity investment that reduced earnings by $50.0 million ($50.0 million pretax)
- Also affecting the 2003 results were the effects of higher natural gas costs, reduced pension income, continued price pressure in certain of the Company's Plastics Packaging business, a national strike in Venezuela that lasted from December of 2002 until early 2003 and higher interest expense as further discussed below

The 2003 results were increased as compared to the 2002 results by higher unit prices in most of the Company's Glass Container segment, higher unit shipments of closures and the effects of changing foreign currency rates. Also affecting the comparison, in 2003 the Company recorded a charge to increase the reserve for asbestos related costs that reduced earnings by $292.5 million ($450.0 million pretax) compared to a 2002 charge that reduced earnings by $308.8 million ($475.0 million pretax)

A net loss of $990.8 million for 2003 includes a loss from discontinued operations of $660.7 million reflecting an impairment charge of $670.0 million to reduce the reported value of goodwill in the consumer products reporting unit. A net loss of $460.2 million for 2002 reflects earnings from discontinued operations of $38.0 million and a cumulative effect of accounting change of $460.0 million.

***Results of Operations—Comparison of 2003 with 2002***

*Net Sales*

The Company's net sales by segment (dollars in millions) for 2003 and 2002 are presented in the following table. The Plastics Packaging amounts reflect the continuing operations and therefore, the results of the discontinued operations have been reclassified from the 2003 and 2002 amounts. For further information, see Segment Information included in Note 18 to the Consolidated Financial Statements.

| | 2003 | 2002 |
|---|---|---|
| Glass Containers | $ 4,182.9 | $ 3,875.2 |
| Plastics Packaging | 792.7 | 746.0 |
| Segment and consolidated net sales | $ 4,975.6 | $ 4,621.2 |

Consolidated net sales for 2003 increased $354.4 million, or 7.7%, to $4,975.6 million from $4,621.2 million for 2002.

Net sales of the Glass Containers segment increased $307.7 million, or 7.9%, over 2002. In North America, a $22.1 million decrease in sales was primarily attributed to a 4.9% reduction in unit shipments. Overall cool and damp weather conditions in the United States and Canada during the spring and summer caused lower demand, principally for beer containers. The North American glass container business also had lower unit shipments of containers for food and beverages, principally juice and teas, as certain of these products continued to convert to plastic packaging. The effects of changing foreign currency exchange rates increased reported U.S. dollar sales of the segment's operations in Canada by approximately $19 million. The combined U.S. dollar sales of the segment's operations outside of North America increased $329.8 million over 2002. The effects of changing foreign currency exchange rates increased reported U.S. dollar sales of the segment's operations in Europe and the Asia Pacific region by approximately $253 million and decreased reported U.S. dollar sales of the segment's operations in South America by approximately $29 million. The increase was also partially attributed to a 7% increase in unit shipments and higher prices in the European businesses (principally in Italy and the United Kingdom), higher prices in South America and the Asia Pacific region, and increased unit shipments in Brazil. Overall unit shipments in the Asia Pacific region were about equal to unit shipments for 2002. These increases were partially offset by a less favorable sales mix in the Asia Pacific region and lower unit shipments throughout most of South America, excluding Brazil, and from the effects of a national strike in Venezuela that began in early December 2002 and ended in early 2003. The strike caused energy supply curtailments that forced The Company to temporarily idle its two plants in the country, adversely affecting net sales by approximately $20 million. The effects of the strike primarily impacted the first quarter of 2003.

The change in net sales for the Glass Containers segment can be summarized as follows:

| | | |
|---|---|---|
| 2002 Net sales—Glass Containers segment | | $ 3,875.2 |
| The effects of sales volume, price and mix | $ 101.6 | |
| The effects of the national strike in Venezuela | (20.9) | |
| The effects of changing foreign currency rates on net sales in Europe, Asia Pacific and Canada | 271.7 | |
| The effects of changing foreign currency rates on net sales in South America | (29.3) | |
| Other | (15.4) | |
| Total net effect on sales | | 307.7 |
| 2003 Net sales—Glass Containers segment | | $ 4,182.9 |

Net sales of the Plastics Packaging segment increased $46.7 million, or 6.3%, over 2002. Unit shipments increased by approximately 10.9% overall, led by increased shipments of closures for beverages, food, juices and healthcare. These increases were offset by lower selling prices in most of the segment's businesses and the absence of sales from the closures assets divested in November of 2003. The effects of higher resin cost pass-throughs increased sales for 2003 by approximately $19.7 million compared with 2002.

The change in net sales for the Plastics Packaging segment can be summarized as follows:

| | | |
|---|---|---|
| 2002 Net sales—Plastics Packaging segment | | $ 746.0 |
| The effect of sales volume, price and mix | $ 17.8 | |
| Divested businesses | (15.3) | |
| Effects of higher resin cost pass-throughs | 19.7 | |
| The effects of changing foreign currency rates on net sales the Asia Pacific region | 26.4 | |
| Other | (1.9) | |
| Total net effect on sales | | 46.7 |
| 2003 Net sales—Plastics Packaging segment | | $ 792.7 |

*Segment Operating Profit*

The Company's Segment Operating Profit results (dollars in millions) for 2003 and 2002 are presented in the following table. The Plastics Packaging Segment Operating Profit amounts reflect the continuing operations, and therefore the results of the discontinued operations have been reclassified from the 2003 and 2002 amounts. In addition, certain Glass Container amounts from prior years have been reclassified to conform to current year presentation. For further information, see Segment Information included in Note 18 to the Consolidated Financial Statements.

| | 2003 | 2002 |
|---|---|---|
| Glass Containers | $ 658.8 | $ 709.0 |
| Plastics Packaging | 98.7 | 136.0 |
| Eliminations and other retained items | (91.9) | (83.1) |

Segment Operating Profit of the Glass Containers segment for 2003 decreased $50.2 million, or 7.1%, to $658.8 million, compared with Segment Operating Profit of $709.0 million for 2002. In North America, Segment Operating Profit for 2003 decreased $107.7 million from 2002. The decrease resulted from higher energy costs of $45.5 million, lower pension income of approximately $32 million and lower unit shipments, particularly beer containers, resulting primarily from overall cool and damp weather conditions in the United States and Canada during the spring and summer, partially offset by higher unit pricing compared to 2002. The Company also took extended Thanksgiving and Christmas shutdowns at its U.S. factories to reduce inventory. The combined U.S. dollar Segment Operating Profit of the segment's operations outside North America increased $57.5 million over 2002. The increase was attributed to increased unit shipments, improved productivity, and higher prices in the European businesses (principally in Italy and the United Kingdom), higher pricing in South America and the Asia Pacific region and increased shipments in Brazil. These increases were partially offset by increased energy costs totaling $34.9 million in Europe, South America and the Asia Pacific region, a less favorable sales mix in the Asia Pacific region, lower unit shipments throughout most of South America, except Brazil, and the effects of a national strike in Venezuela that began in early December 2002. The strike caused energy supply curtailments that forced The Company to temporarily idle its two plants in the country, adversely affecting Segment Operating Profit by approximately $10 million. The effects of the strike primarily impacted the first quarter of 2003. In addition, the effects of changing foreign currency exchange rates increased reported U.S. dollar Segment Operating Profit of the segment's

operations in Europe and the Asia Pacific region by approximately $43 million and decreased reported U.S. dollar Segment Operating Profit of the segment's operations in South America by approximately $6 million.

The change in Segment Operating Profit for the Glass Containers segment can be summarized as follows:

| | | |
|---|---|---|
| 2002 Segment Operating Profit—Glass Containers | | $ 709.0 |
| The effects of sales volume, price and mix | $ 64.4 | |
| Increased warehouse and other manufacturing costs | (24.4) | |
| Higher energy costs | (80.4) | |
| Lower pension income in North America | (31.9) | |
| Lower pension income in Europe and the Asia Pacific region | (7.2) | |
| The effects of the national strike in Venezuela | (10.1) | |
| The effects of changing foreign currency rates on Segment Operating Profit in Europe and Asia Pacific | 42.6 | |
| The effects of changing foreign currency rates on Segment Operating Profit in South America | (5.9) | |
| Other | 2.7 | |
| Total net effect on Segment Operating Profit | | (50.2) |
| 2003 Segment Operating Profit—Glass Containers | | $ 658.8 |

Segment Operating Profit of the Plastics Packaging segment for 2003 decreased $37.3 million, or 27.4%, to $98.7 million compared to Segment Operating Profit of $136.0 million for 2002. Unit shipments increased by approximately 10.9% overall, led by increased shipments of closures for beverages, food, juices and healthcare. However, the change in product mix and lower selling prices for most of the segment's businesses more than offset the effects of increased shipments. Other factors that unfavorably affected Segment Operating Profit in 2003 compared to 2002 were: (1) reduced Segment Operating Profit of $14.5 million for the segment's advanced technology systems business, as a major customer discontinued production in the U.S. and relocated that production to Singapore; (2) the write-off of $4.0 million of miscellaneous assets that were no longer being utilized and (3) lower pension income of approximately $4.4 million.

The change in Segment Operating Profit for the Plastics Packaging segment can be summarized as follows:

| | | |
|---|---|---|
| 2002 Segment Operating Profit—Plastics Packaging | | $ 136.0 |
| The effects of price and volume | $ (7.5) | |
| Increased delivery, warehouse, shipping and other manufacturing costs | (5.5) | |
| Lower pension income | (4.4) | |
| Effects of a customer relocating to Singapore | (14.5) | |
| The write-off of miscellaneous assets | (4.0) | |
| Other | (1.4) | |
| Total net effect on Segment Operating Profit | | (37.3) |
| 2003 Segment Operating Profit—Plastics Packaging | | $ 98.7 |

Eliminations and other retained items for 2003 were $8.8 million higher than for 2002. The principal reasons for the higher costs were: (1) $4.6 million reduction in pension income; (2) the write-off of software initiatives that the Company decided not to pursue; and (3) accelerated amortization of certain information system assets scheduled for replacement in 2004.

Consolidated Segment Operating Profit for 2003 was $665.6 million and excluded the following: (1) charges of $50.0 million for the write-down of an equity investment in a soda ash mining operation; (2) a charge of $450.0 million to increase the reserve for estimated future asbestos-related costs; (3) a charge of $43.0 million for the write-down of Plastics Packaging assets in the Asia Pacific region; (4) a loss of $41.3 million on the sale of certain closures assets; (5) a loss of $37.4 million from the sale of long-term notes receivable; and (6) capacity curtailment charges totaling $72.5 million which includes $28.5 million for the permanent closure of the Hayward, California glass container factory, $23.9 million for the shutdown of the Perth, Australia glass container factory and $20.1 million for the shutdown of the Milton, Ontario glass container factory. These items, which are all discussed further below, were excluded from Segment Operating Profit because management considered them not representative of ongoing operations. Consolidated Segment Operating Profit for 2002 was $761.9 million and excluded a charge of $475.0 million to increase the reserve for estimated future asbestos-related costs.

*Interest Expense*

Interest expense increased to $429.8 million in 2003 from $372.2 million in 2002. Interest expense for 2003 included charges of $13.2 million for note repurchase premiums and related write-off of unamortized finance fees and $1.3 million for the write-off of unamortized finance fees related to the reduction of available credit under the Company's previous bank credit agreement. Interest expense for 2002 included a charge of $9.1 million for early extinguishment of debt which was reclassified from extraordinary items as required by FAS No. 145. For more information, see Note 16 to the Consolidated Financial Statements. Exclusive of these items in both years, interest expense for 2003 was $52.2 million higher than in 2002. The higher interest expense in 2003 was mainly due to the issuance of fixed rate notes totaling $1.625 billion in 2002 and $900 million in May 2003. The proceeds from the notes were used to repay lower cost, variable rate debt borrowed under the Company's secured credit agreement. Higher debt levels in 2003 also contributed to the increase. Lower interest rates in 2003 on the Company's remaining variable rate debt partially offset the increase.

*Provision for Income Taxes*

Excluding the effects of the Segment Operating charges discussed above and the additional interest charges for early retirement of debt, the Company's effective tax rate from continuing operations for 2003 was 27.9%. Excluding the effects of the Segment Operating charges discussed above and the additional interest charges for the early retirement of debt, the Company's effective tax rate from continuing operations for 2002 was 28.4%. The lower effective tax rate in 2003 is principally due to a change in Italian tax laws, including a rate decrease that was enacted late in the fourth quarter of 2003.

*Minority Share Owners' Interest in Earnings of Subsidiaries*

Minority share owners' interest in earnings of subsidiaries for 2003 was $25.8 million compared to $25.5 million for 2002.

*Earnings from Continuing Operations*

For 2003, the Company recorded a net loss from continuing operations of $330.1 million compared to a net loss from continuing operations before cumulative effect of accounting change of $38.2 million for the year ended December 31, 2002. The after tax effects of the items excluded from Segment Operating Profit and the additional interest charges discussed above, increased or decreased earnings in 2003 and 2002 as set forth in the following table (millions of dollars).

| | Net Earnings Increase (Decrease) | |
|---|---|---|
| **Description** | **2003** | **2002** |
| Write-down of equity investment | $ (50.0) | $ — |
| Write-down of Plastics Packaging assets in the Asia Pacific-region | (30.1) | |
| Increase in the reserve for future asbestos related costs | (292.5) | (308.8) |
| Loss on the sale of long-term notes receivable | (37.4) | |
| Loss on the sale of certain closures assets | (25.8) | |
| Shutdown of the Milton, Ontario glass container factory | (19.5) | |
| Shutdown of the Hayward, California glass container factory | (17.8) | |
| Shutdown of the Perth, Australia glass container factory | (17.4) | |
| Note repurchase premiums and write-off of finance fees | (9.1) | (5.7) |
| Total | $ (499.6) | $ (314.5) |

***Results of Operations—Comparison of 2002 with 2001***

*Net Sales*

The Company's net sales by segment (dollars in millions) for 2002 and 2001 are presented in the following table. The Plastics Packaging amounts reflect the continuing operations and therefore, the results of the discontinued operations have been reclassified from the 2002 and 2001 amounts. For further information, see Segment Information included in Note 18 to the Consolidated Financial Statements.

| | **2002** | **2001** |
|---|---|---|
| Glass Containers | $ 3,875.2 | $ 3,572.3 |
| Plastics Packaging | 746.0 | 766.9 |
| Other | | 4.5 |
| Segment and consolidated net sales | $ 4,621.2 | $ 4,343.7 |

Consolidated net sales for 2002 increased $277.5 million, or 6.4%, to $4,621.2 million from $4,343.7 million in 2001.

Net sales of the Glass Containers segment increased $302.9 million, or 8.5%, over 2001. In North America, the additional sales from the October 2001 acquisition of the Canadian glass container operations and increased shipments of containers for liquor and wine were partially offset by decreased shipments of containers for food, teas and juices. The combined U.S. dollar sales of the segment's other operations outside the U.S. increased 2.6% over the prior year. Increased shipments throughout most of the Asia Pacific region and portions of Europe were partially offset by the absence of the glass container operations in India, which were sold in 2001, and the effects of political and economic uncertainty in Venezuela. A national strike in Venezuela that began in early December 2002 caused energy supply curtailments that forced the Company to temporarily idle its two plants in the country, adversely affecting 2002 net sales by approximately $20 million. The effects of changing foreign currency exchange rates increased U.S. dollar sales of the segment's operations in Europe and the Asia Pacific region by approximately $90 million and decreased U.S. dollar sales of the segment's operations in South America by approximately $60 million.

The change in net sales for the Glass Containers segment can be summarized as follows:

| | | |
|---|---|---|
| 2001 Net sales—Glass Containers segment | | $ 3,572.3 |
| The additional sales for the acquired Canadian operations | $ 248.1 | |
| Divested business in India | (32.9) | |
| The effects of sales volume, price and mix | 57.7 | |
| The effects of the national strike in Venezuela | (20.0) | |
| The effects of changing foreign currency rates on net sales in Europe and Asia Pacific | 90.2 | |
| The effects of changing foreign currency rates on net sales in South America | (59.9) | |
| Other | 19.7 | |
| Total net effect on sales | | 302.9 |
| 2002 Net sales—Glass Containers segment | | $ 3,875.2 |

Net sales of the Plastics Packaging segment decreased $20.9 million, or 2.7%, from 2001. Increased shipments of closures for food, juice and other beverages were more than offset by lower unit pricing in some product lines and the absence of sales from several small businesses divested during 2002. The effects of lower resin cost pass-throughs increased sales approximately $1.4 million compared to 2001.

The change in net sales for the Plastics Packaging segment can be summarized as follows:

| | | |
|---|---|---|
| 2001 Net sales—Plastics Packaging segment | | $ 766.9 |
| The effect of sales volume, price and mix | $ (15.5) | |
| Divested businesses | (10.2) | |
| Effects of higher resin cost pass-throughs | 1.4 | |
| The effects of changing foreign currency rates on net sales the Asia Pacific region | 8.6 | |
| Other | (5.2) | |
| Total net effect sales | | (20.9) |
| 2002 Net sales—Plastics Packaging segment | | $ 746.0 |

*Segment Operating Profit*

The Company's Segment Operating Profit results (dollars in millions) for 2002 and 2001 are presented in the following table. The Plastics Packaging Segment Operating Profit amounts reflect the

continuing operations and therefore, the results of the discontinued operations have been reclassified from the 2002 and 2001 amounts. For further information, see Segment Information included in Note 18 to the Consolidated Financial Statements.

| | 2002 | 2001 |
|---|---|---|
| Glass Containers | $ 709.0 | $ 627.1 |
| Plastics Packaging | 136.0 | 141.7 |
| Other | | 0.2 |
| Eliminations and other retained items | (83.1) | (64.0) |

Segment Operating Profit of the Glass Containers segment increased $81.9 million to $709.0 million, compared to $627.1 million in 2001. The combined U.S. dollar Segment Operating Profit of the segment's operations outside the U.S. increased 7.7% over prior year. Increased shipments throughout most of the Asia Pacific region and portions of Europe and moderately improved pricing in Europe were partially offset by lower shipments in Brazil and Colombia, the national strike in Venezuela as discussed above and unfavorable currency translation rates throughout most of South America. In North America, Segment Operating Profit increased 18% over 2001 principally as a result of the Canadian glass container operations acquired early in the fourth quarter of 2001, moderately improved pricing and product mix, increased shipments of containers for liquor and wine and the recognition of the remaining deferred income associated with the early termination of an energy supply agreement, partially offset by the conversion of certain food and beverage containers to plastic packaging.

The change in Segment Operating Profit for the Glass Containers segment can be summarized as follows:

| | | |
|---|---|---|
| 2001 Segment Operating Profit—Glass Containers | | $ 627.1 |
| The effects of sales volume, price and mix | $ 42.0 | |
| Increased warehouse and freight costs | (11.1) | |
| The absence of the India operations sold in 2001 | 35.6 | |
| The addition of the acquired Canadian operations | 28.0 | |
| Higher energy costs | (10.9) | |
| The effects of the national strike in Venezuela | (4.4) | |
| The effects of changing foreign currency rates on Segment Operating Profit in Europe and Asia Pacific | 14.5 | |
| The effects of changing foreign currency rates on Segment Operating Profit in South America | (11.5) | |
| Other | (0.3) | |
| Total net effect on Segment Operating Profit | | 81.9 |
| 2002 Segment Operating Profit—Glass Containers | | $ 709.0 |

Segment Operating Profit of the Plastics Packaging segment decreased $5.7 million, or 4.0%, to $136.0 million compared to $141.7 million in 2001. Favorable effects included increased shipments of closures for food, juice and other beverages as well as improved manufacturing performance. These favorable effects were more than offset by lower unit pricing in some product lines and discontinued production for a major customer in the advanced technology systems business as the customer moved production from the U.S. to the Far East. The Company commissioned a new factory in the Asia Pacific region to continue to supply this customer which became fully operational early in 2003. While the Company continues to supply this customer from the new facility, the margins on these products will be lower than in prior periods. The Plastics Packaging segment operates in a number of highly competitive markets and incurred significant pricing pressure during 2002 in some product lines which

the Company expected to partially offset by increased unit volume, improved productivity and reduced costs.

The change in Segment Operating Profit for the Plastics Packaging segment can be summarized as follows:

| | | |
|---|---|---|
| 2001 Segment Operating Profit—Plastics Packaging | | $ 141.7 |
| The effects of price, volume and mix | $ (5.6) | |
| Increased productivity and improved purchasing leverage | 8.6 | |
| The effects of a customer relocating to Singapore | (14.2) | |
| Other | 5.5 | |
| Total net effect on Segment Operating Profit | | (5.7) |
| 2002 Segment Operating Profit—Plastics Packaging | | $ 136.0 |

Eliminations and other retained items were higher by $19.1 million from 2001 reflecting lower net financial services income due to the sale of the Company's Harbor Capital Advisors business in the second quarter of 2001 as well as higher information systems spending during the year.

Consolidated Segment Operating Profit for 2002 was $761.9 million and excluded a charge of $475.0 million to increase the reserve for future asbestos related costs. Consolidated Segment Operating Profit for 2001 was $705.0 million and excluded the following items: (1) a gain of $457.3 million related to the sale of the Harbor Capital Advisors business; (2) a $10.3 million gain from the sale of a minerals business in Australia; (3) a $2.8 million gain from the sale of the Company's label business; (4) a charge of $31.0 million related to the loss on the sale of the Company's facilities in India; (5) charges of $28.7 million related to special employee benefit programs; (6) restructuring and impairment charges of $74.0 million as discussed further below; and (7) goodwill amortization of $55.9 million. These items were excluded from Segment Operating Profit because management considered them not representative of ongoing operations.

*Net Interest*

Interest expense, net of interest income, increased $14.5 million from 2001. The effects of lower short-term variable interest rates were mostly offset by the first quarter 2002 issuance of $1.0 billion principal amount of $8^{7}/8$% Senior Secured Notes due 2009 and the fourth quarter 2002 issuance of $625 million principal amount of $8^{3}/4$% Senior Secured Notes due 2012. Proceeds from the $8^{7}/8$% Senior Secured Notes due 2009 and the $8^{3}/4$% Senior Secured Notes due 2012 were used to repay lower cost, variable rate debt borrowed under the original secured credit agreement. During 2002, the Company wrote off unamortized deferred finance fees related to indebtedness repaid prior to its scheduled maturity and recorded additional charges to interest expense of $9.1 million. During 2001, the Company wrote off unamortized deferred finance fees related to indebtedness repaid prior to its scheduled maturity and recorded an additional charge to interest expense of $4.7 million. Also affecting net interest for 2001 was a net interest charge of $4.0 million related to the resolution of the transfer of pension assets and liabilities for a previous acquisition and divestiture.

*Provision for Income Taxes*

During 2001, the Company recorded a $6.0 million income tax charge to adjust liabilities in Italy as a result of legislation passed that year. Excluding goodwill amortization and the other items excluded from Segment Operating Profit, additional interest charges for the early retirement of debt, the net interest charge related to the resolution of the transfer of pension assets and liabilities for a previous acquisition and divestiture, and the Italian income tax charge, the Company's effective tax rate was 28.4% for 2002 compared to 29.2% for 2001.

*Earnings from Continuing Operations*

For the year ended December 31, 2002, the Company recorded a loss from continuing operations before cumulative effect of accounting change of $38.2 million compared to earnings from continuing operations of $365.0 million for 2001. The after tax effects of the items excluded from Segment Operating Profit, as well as the additional interest charges and tax adjustment discussed above, increased or decreased earnings in 2002 and 2001 as set forth in the following table (millions of dollars).

| | Earnings from Continuing Operations | |
|---|---|---|
| | Increase (Decrease) | |
| Description | 2002 | 2001 |
| Gain on the sale of the Harbor Capital Advisors business | | $ 284.4 |
| Gain on the sale of the Company's label business and the sale of a minerals business in Australia | | 12.0 |
| Adjustment of the reserve for future asbestos related costs | $ (308.8) | |
| Restructuring and impairment charges | | (60.2) |
| Loss on the sale of the Company's facilities in India | | (31.0) |
| Special employee benefit programs | | (18.0) |
| Charges to adjust net income tax liabilities in Italy | | (6.0) |
| Write off unamortized deferred finance fees related to indebtedness repaid prior to its scheduled maturity | (5.7) | (2.9) |
| Net interest on the resolution of the transfer of pension assets and liabilities for a previous acquisition | | (2.8) |
| Goodwill amortization | | (55.9) |
| Total | $ (314.5) | $ 119.6 |

**Acquisition of BSN Glasspack S.A.**

On June 21, 2004, the Company completed the BSN Acquisition. Total consideration for the BSN Acquisition was approximately $1.3 billion, including the assumption of debt. BSN was the second largest glass container manufacturer in Europe with manufacturing facilities in France, Spain, Germany and Holland. The BSN Acquisition was financed with borrowings under the Company's Second Amended and Restated Secured Credit Agreement. In an agreement with the European Commission, the Company committed to divest two plants (located in Barcelona, Spain, and Corsico, Italy) as part of the transaction.

The acquisition was part of the Company's overall strategy to improve its presence in the European market in order to better serve the needs of its customers throughout the European region and to take advantage of synergies in purchasing and costs reduction that will allow the Company to significantly improve the earnings contribution provided by the entire European operations. This integration strategy should lead to significant improvement in earnings by the end of 2007. Certain actions contemplated by the integration strategy may require additional accruals that will increase goodwill or result in one-time charges to operations. The Company is currently in the process of evaluating its capacity in relation to the overall market demand in Europe and may decide to reduce capacity based upon this evaluation.

The total purchase cost of approximately $1.3 billion will be allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. Such allocations will be based upon valuations which have not been finalized. Accordingly, the allocation of the purchase consideration included in the accompanying Condensed Consolidated Balance Sheet at September 30,

2004, is preliminary and includes $773.5 million in goodwill representing the unallocated portion of the purchase price. The Company expects that a substantial portion of the valuation process will be completed by the end of 2004 and the balance will be completed no later than the second quarter of 2005.

The Company's third quarter 2004 results include net sales and Segment Operating Profit contributions of approximately $365 million and $0.1 million, respectively, from this newly acquired business. The Company's results for the nine month period ended September 30, 2004, included three full months plus 10 days of BSN operations and include net sales and Segment Operating Profit contributions of approximately $416 million and $0.5 million, respectively, from this newly acquired business. The $0.5 million Segment Operating Profit contribution includes a reduction in gross profit of $31.1 million related to the impact of the acquisition step-up of BSN finished goods inventory as required by FAS No. 141.

The incremental interest expense included in the Company's third quarter results related to BSN was approximately $26 million.

**Discontinued Operations**

On October 7, 2004, the Company completed the sale of its blow-molded plastic container operations in North America, South America and Europe, to Graham Packaging Company, L.P., a portfolio company of The Blackstone Group. Cash proceeds of approximately $1.2 billion were used to repay term loans under the Company's secured credit facility, which was amended to permit the sale.

Included in the sale were 24 plastics manufacturing plants in the U.S., two in Mexico, three in Europe and two in South America, serving consumer products companies in the food, beverage, household, chemical and personal care industries. The blow-molded plastic container operations were part of the Plastics Packaging segment.

As required by FAS No. 144, the Company has presented the results of operations for the blow-molded plastic container business in the Condensed Consolidated Results of Operations for the three and nine month periods ended September 30, 2004 and 2003 as a discontinued operation. Interest expense was allocated to discontinued operations based on debt that was required to be repaid from the proceeds. As such, the prior periods have been reclassified to conform to this presentation. At September 30, 2004, the assets and liabilities of the blow-molded plastic container business were presented in the Condensed Consolidated Balance Sheet as the assets and liabilities of discontinued operations.

The following summarizes the revenues and expenses of the discontinued operations as reported in the Condensed Consolidated Results of Operation for the period indicated:

| | Nine months ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| **Revenues:** | | |
| Net sales | $ 858.6 | $ 843.0 |
| Other revenue | 7.6 | 7.3 |
| | 866.2 | 850.3 |
| **Costs and expenses:** | | |
| Manufacturing, shipping and delivery | 736.6 | 725.7 |
| Research, development and engineering | 15.7 | 15.9 |
| Selling and administrative | 21.8 | 23.2 |
| Interest | 44.1 | 44.5 |
| Other | 22.7 | 10.0 |
| | 840.9 | 819.3 |
| Earnings before items below | 25.3 | 31.0 |
| Provision for income taxes | 15.7 | 12.7 |
| Net earnings from discontinued operations | $ 9.6 | $ 18.3 |

| | Years ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| **Revenues:** | | | |
| Net sales | $ 1,083.4 | $ 1,019.2 | $ 1,058.8 |
| Other revenue | 9.0 | 9.7 | 11.6 |
| | 1,092.4 | 1,028.9 | 1,070.4 |
| **Costs and expenses:** | | | |
| Manufacturing, shipping, and delivery | 949.3 | 840.5 | 859.1 |
| Research and development and engineering | 20.2 | 22.4 | 23.4 |
| Selling and administrative | 33.8 | 30.7 | 27.2 |
| Interest | 60.8 | 64.9 | 80.3 |
| Other | 681.0 | 6.7 | 70.7 |
| | 1,745.1 | 965.2 | 1,060.7 |
| Earnings before items below | (652.7) | 63.7 | 9.7 |
| Provision for income taxes | 8.0 | 25.7 | 17.5 |
| Minority share owners' interests in earnings of subsidiaries | | | 0.6 |
| Net earnings of discontinued operations | $ (660.7) | $ 38.0 | $ (8.4) |

The Condensed Consolidated Balance Sheet at September 30, 2004 included the following assets and liabilities of the discontinued operations:

| | Balance at Sept. 30, 2004 |
|---|---|
| **Assets:** | |
| Inventories | $ 139.4 |
| Accounts receivable | 131.9 |
| Other current assets | 9.5 |
| Total current assets | 280.8 |
| Goodwill | 149.0 |
| Other long-term assets | 72.4 |
| Net property, plant and equipment | 699.8 |
| Total assets | $ 1,202.0 |
| **Liabilities:** | |
| Accounts payable and other current liabilities | $ 122.4 |
| Other long-term liabilities | 44.8 |
| Total liabilities | $ 167.2 |

The condensed consolidated balance sheets at December 31, 2003 and 2002 included the following assets and liabilities:

| | Balance at December 31, | |
|---|---|---|
| | 2003 | 2002 |
| **Assets:** | | |
| Inventories | $ 155.0 | $ 146.4 |
| Accounts receivable | 112.1 | 91.9 |
| Other current assets | 14.8 | 18.1 |
| Total current assets | 281.9 | 256.4 |
| Goodwill | 149.0 | 819.0 |
| Other long-term assets | 79.2 | 81.5 |
| Net property, plant and equipment | 729.2 | 723.4 |
| Total assets | $ 1,239.3 | $ 1,880.3 |
| **Liabilities:** | | |
| Accounts payable and other current liabilities | $ 103.0 | $ 128.7 |
| Other long-term liabilities | 64.0 | 94.7 |
| Total liabilities | $ 167.0 | $ 223.4 |

**Sale of Long-term Notes Receivable**

On July 11, 2003, the Company received payments totaling 100 million British pounds sterling (US$163.0 million) in connection with the sale to Ardagh Glass Limited of certain long-term notes receivable. The notes were received from Ardagh in 1999 by the Company's wholly-owned subsidiary, United Glass Limited, in connection with its sale of Rockware, a United Kingdom glass container manufacturer obtained in the 1998 acquisition of the worldwide glass and plastics packaging businesses of BTR plc. The notes were due in 2006 and interest had previously been paid in kind through periodic increases in outstanding principal balances. The proceeds from the sale of the notes were used to reduce outstanding borrowings under the Company's Secured Credit Agreement. The notes were sold at a discount of approximately 22.6 million British pounds sterling. The resulting loss of US$37.4 million (US$37.4 million after tax) was included in the results of operations of the second quarter of 2003.

**Capacity Curtailments**

Over the last several years, the Company has significantly improved its overall worldwide glass container labor and machine productivity, as measured by output produced per man-hour. By applying its technology and worldwide best practices, the Company has been able to significantly increase the daily output of glass-forming machines. As a result of these increases in productivity, the Company has had to close glass plants in order to keep its capacity in balance with required production volumes.

In August 2003, the Company announced the permanent closing of its Hayward, California glass container factory. Production at the factory was suspended in June following a major leak in its only glass furnace. As a result, the Company recorded a capacity curtailment charge of $28.5 million ($17.8 million after tax) in other costs and expenses in the results of operations for 2003.

The closing of this factory resulted in the elimination of approximately 170 jobs and a corresponding reduction in the Company's workforce. The Company expects to save approximately $12 million per year by closing this factory and moving the production to other locations. The Company anticipates that it will pay out approximately $15 million in cash related to severance, benefits, lease commitments, plant clean-up, and other plant closing costs. The Company expects that a substantial portion of these costs will be paid out by the end of 2005.

In November 2003, the Company announced the permanent closing of its Milton, Ontario glass container factory. The closing of this factory is part of the Company's previously announced capacity utilization review. This closing is part of an effort to bring capacity and inventory levels in line with anticipated demand. As a result, the Company recorded a capacity curtailment charge of $20.1 million ($19.5 million after tax) in other costs and expenses in the results of operations for 2003.

The closing of this factory in November 2003 resulted in the elimination of approximately 150 jobs and a corresponding reduction in the Company's workforce. The Company eventually expects to save approximately $8.5 million per year by closing this factory and moving the production to other locations. The Company anticipates that it will pay out approximately $8.0 million in cash related to severance, benefits, plant clean-up, and other plant closing costs. The Company expects that the majority of these costs will be paid out by the end of 2005.

In December 2003, the Company announced the permanent closing of its Perth, Australia glass container factory. The closing of this factory is part of the Company's previously announced capacity utilization review. This closing is part of an effort to reduce overall capacity in Australia and bring inventory levels in line with anticipated demand. The Perth plant's western location and small size contributed to the plant being a higher cost facility that was no longer economically feasible to operate. As a result, the Company recorded a capacity curtailment charge of $23.9 million ($17.4 million after tax) in other costs and expenses in the results of operations for 2003.

The closing of this factory in December 2003 resulted in the elimination of approximately 107 jobs and a corresponding reduction in the Company's workforce. The Company expects to save approximately $9 million per year by closing this factory and eventually moving the production to other locations. The Company anticipates that it will pay out approximately $10 million in cash related to severance, benefits, plant clean-up, and other plant closing costs. The majority of these costs were paid out by the end of the third quarter of 2004.

The 2001 operating results included pretax charges of $74.0 million related to the following: (1) charges of $66.1 million principally related to a restructuring program and impairment at certain of the Company's international and domestic operations. The charge included the impairment of assets at the Company's affiliate in Puerto Rico and the consolidation of manufacturing capacity and the closing of a facility in Venezuela. The program also included consolidation of capacity at certain other international and domestic facilities in response to decisions about pricing and market strategy and (2) a charge of $7.9 million related to restructuring manufacturing capacity in the medical devices business. The Company substantially completed these restructuring programs during 2002. The cost savings from the 2001 restructuring program were not material.

**Sale of Certain Closures Assets**

During the fourth quarter of 2003, the Company completed the sale of its assets related to the production of plastic trigger sprayers and finger pumps. Included in the sale were manufacturing facilities in Bridgeport, Connecticut and El Paso, Texas, in addition to related production assets at the Erie, Pennsylvania plant. As a result of the sale, the Company recorded a loss of $41.3 million ($25.8 million after tax) in the third and fourth quarters of 2003. The net cash proceeds from the sale of approximately $44 million, including liquidation of related working capital, were used to reduce debt.

The Company's decision to sell its assets related to the production of plastic trigger sprayers and finger pumps was consistent with its objectives to improve liquidity and to focus on its core businesses.

**Plastics Packaging Assets**

In August of 2003, the Company initiated a review of its Plastics Packaging assets in the Asia Pacific region. The review was completed during the fourth quarter of 2003. The Company used a combination of estimated divestment cash flows, which included bid prices from potential purchasers, and partial liquidation values for certain assets to determine the net realizable values of the assets. The Company compared the estimated net realizable values to the book values of the asset and determined that an asset impairment existed. As a result, the Company recorded a charge of $43.0 million ($30.1 million after tax) to write-down the assets to realizable values. Certain of the plastics businesses in the Asia Pacific region operate in highly competitive markets leading to reduced profit margins. In addition, the Company's PET container business has lost a significant amount of business in the past few years. The reduced business and overall excess capacity in the industry has caused a reduction in the overall value of the business. The Company has entered into an agreement to sell a significant portion of its Asia Pacific plastic business for approximately $60 million (excluding PET container operations). The sale of this business is subject to certain regulatory and other approvals.

**Write-down of Equity Investment**

During the fourth quarter of 2003, the Company determined that the value of its 25% investment in a North American soda ash mining operation was impaired and not likely to recover. Increasing global competition and recent development of foreign sources of soda ash have created significant excess capacity in that industry. The resulting competitive environment caused management of the soda ash mining operation to significantly lower its projections of earnings and cash flows. Following an evaluation of future estimated earnings and cash flows, the Company determined that its carrying value should be written down to estimated fair value and recorded a $50 million charge in the fourth quarter which substantially reduced the carrying value of this equity method investment.

**Asbestos-Related Costs**

The charge for asbestos-related costs of $450.0 million ($292.5 million after tax), recorded in the fourth quarter of 2003, represented an increase in the accrued liability for estimated future asbestos-related costs. Following the completion of a comprehensive review of its asbestos-related liabilities and costs during the fourth quarter of 2003, the Company concluded that an increase in the accrued liability was required to provide for estimated indemnity payments and legal fees arising from asbestos personal injury lawsuits and claims pending and expected to be filed in the next several years.

Asbestos-related cash payments for 2003 were $199.0 million, a reduction of $22.1 million, or 10%, from 2002. During 2003, the Company disposed of approximately 21,000 claims. Certain dispositions in 2003 and prior years have included deferred amounts payable over periods ranging up to seven years. Deferred amounts payable at December 31, 2003 were approximately $87 million compared with approximately $50 million at December 31, 2002. The Company anticipates that cash flows from

operations and other sources will be sufficient to meet all asbestos-related obligations on a short-term and long-term basis.

As of December 31, 2003, the number of asbestos-related claims pending against the Company was approximately 29,000, up from approximately 24,000 pending claims at December 31, 2002. In the second quarter of 2003, the Company received approximately 7,000 new filings in advance of the effective date of the recently-enacted Mississippi tort reform law. Approximately 60% of those filings are cases with exposure dates after the Company's 1958 exit from the business for which the Company takes the position that it has no liability.

A former business unit of the Company produced a minor amount of specialized high-temperature insulation material containing asbestos from 1948 until 1958, when the business was sold. In line with its limited involvement with an asbestos-containing product and its exit from that business over 45 years ago, the Company will continue to work aggressively to minimize the number of incoming cases and will continue to limit payments to only those impaired claimants who were exposed to the Company's products and whose claims have merit under applicable state law. See Note 19 to the Consolidated Financial Statements for further information.

**Capital Resources and Liquidity**

*Current and Long-Term Debt*

The Company's total debt at September 30, 2004 was $6.59 billion, compared to $5.43 billion at December 31, 2003 and $5.50 billion at September 30, 2003.

In the first quarter of 2004, the Company's subsidiary borrowers entered into the Second Amended and Restated Secured Credit Agreement. At September 30, 2004 the Second Amended and Restated Secured Credit Agreement provided for up to $2.7 billion of U.S. dollar borrowings and 52 million of Euro borrowings. At September 30, 2004, the Company's subsidiary borrowers had unused credit of $448.6 million available under the Second Amended and Restated Secured Credit Agreement.

The weighted average interest rate on borrowings outstanding under the Second Amended and Restated Secured Credit Agreement at September 30, 2004 was 4.83%. Including the effects of cross-currency swap agreements related to borrowings under the Second Amended and Restated Secured Credit Agreement by the Company's Australian, European and Canadian subsidiaries, as discussed in Note 10, the weighted average interest rate was 5.10%.

On October 7, 2004, in connection with the sale of the Company's blow-molded plastic container operations, the Company's subsidiary borrowers entered into the Third Amended and Restated Secured Credit Agreement. The proceeds for the sale were used to repay C and D term loans and a portion of the B1 term loan outstanding under the previous agreement. The Third Amended and Restated Secured Credit Agreement includes a $600 million revolving credit facility and a $380 million A1 term loan, each of which has a final maturity date of April 1, 2007. It also includes a $275 million B1 term loan, and $230 million C1 term loan, and a 52 million Euro C2, each of which has a final maturity date of April 1, 2008. The Third Amended and Restated Secured Credit Agreement eliminated the provisions related to the C3 term loan that was cancelled on August 19, 2004. The Third Amended and Restated Secured Credit Agreement also permits the Company, at its option, to refinance certain of its outstanding notes and debentures prior to their scheduled maturity.

The Third Amended and Restated Secured Credit Agreement contains covenants and provisions that, among other things, restrict the ability of the Company and its subsidiaries to dispose of assets, incur additional indebtedness, prepay other indebtedness or amend certain debt instruments, pay dividends, create liens on assets, enter into contingent obligations, enter into sale and leaseback transactions, make investments, loans or advances, make acquisitions, engage in mergers or consolidations, change the business conducted, or engage in certain transactions with affiliates and

otherwise restrict certain corporate activities. In addition, the Third Amended and Restated Secured Credit Agreement contains financial covenants that require the Company to maintain specified financial ratios and meet specified tests based upon financial statements of the Company and its subsidiaries on a consolidated basis, including minimum fixed charge coverage ratios, maximum leverage ratios, minimum net worth and specified capital expenditure tests.

As part of the BSN Acquisition, the Company assumed the senior subordinated notes of BSN. The 10.25% senior subordinated notes are due August 1, 2009 and have a face amount of 140.0 million euros and were recorded at the acquisition date at a fair value of 147.7 million euros. The 9.25% senior subordinated notes are due August 1, 2009 and have a face amount of 160 million euros and were recorded at the acquisition date at a fair value of 168.0 million euros. Each of these offerings is the subject of a tender offer.

During May 2003, a subsidiary of the Company issued Senior Secured Notes totaling $450 million and Senior Notes totaling $450 million. The notes bear interest at 7.75% and 8.25%, respectively, and are due May 15, 2011 and May 15, 2013, respectively. Both series of notes are guaranteed by the Company and substantially all of its domestic subsidiaries. In addition, the assets of substantially all of the Company's domestic subsidiaries are pledged as security for the Senior Secured Notes. The indentures for the 7.75% Senior Secured Notes and the 8.25% Senior Notes have substantially the same restrictions as the previously issued 8.875% and 8.75% Senior Secured Notes. The issuing subsidiary used the net proceeds from the notes of approximately $880 million to purchase in a tender offer $263.5 million of OI Inc.'s $300 million 7.85% Senior Notes due 2004 and repay borrowings under the then existing credit agreement. Concurrently, available credit under the then existing credit agreement was reduced to approximately $1.9 billion. As part of the issuance of these notes and the related tender offer, the Company recorded in the second quarter of 2003 additional interest charges of $13.2 million for note repurchase premiums and the related write-off of unamortized finance fees and $3.6 million ($1.3 million for continuing operations) for the write-off of unamortized finance fees related to the reduction of available credit under the previous credit agreement.

The Senior Secured Notes totaling $2.075 billion and Senior Notes totaling $450 million that were issued during 2002 and 2003 were part of the Company's plan to improve financial flexibility by issuing long-term fixed rate debt. While this strategy extended the maturity of the Company's debt, long-term fixed rate debt increases the cost of borrowing compared to shorter term, variable rate debt.

*Cash Flows*

Cash provided by continuing operating activities was $382.1 million for the first nine months of 2004 compared to $130.9 million for the first nine months of 2003, an improvement of $251.2 million. Cash required for working capital in the first nine months of 2004 was $207.8 million less than the first nine months of 2003. Inventories in North American glass container operations were lower than prior year as a result of tighter management of inventory levels as part of the Company's overall focus on working capital improvement. Inventory levels in the Australian and European glass container operations, excluding the BSN Acquisition, were also lower, as compared to the prior year. These lower inventories along with lower accounts receivable are part of the Company's focus on working capital management to improve cash flow.

For the year ended December 31, 2003, the Company paid $458.8 million in cash interest compared with $372.1 million for 2002. The increase in cash interest paid is due in part to the issuance of the Senior Secured and Senior Notes discussed above. The increase is also due to overall higher levels of debt. These increases were partially offset by lower overall interest rates on the Company's variable rate debt borrowed under the Second Amended and Restated Secured Credit Agreement. The Company expects that the effects of additional higher cost fixed rate debt will add approximately $22 million to interest expense for full year of 2004 compared to the full year of 2003. As discussed

further below, the Company has implemented an ongoing program to swap up to $1.2 billion of fixed rate debt into floating rate debt. The Company expects that this program will save approximately $26 million in cash interest paid during 2004. Following the BSN Acquisition, the Company's cash interest payments will increase substantially as a result of the additional borrowings and assumed debt. The amount of such additional payments will depend partially on future interest rates, however, based on rates in effect at the end of 2003, the Company expects cash interest payments to increase by approximately $75 million on an annual basis.

Asbestos-related payments for 2003 decreased $22.1 million, or 10.0%, to $199.0 million, compared with $221.1 million for 2002. The Company expects that its total asbestos-related payments in 2004 will be moderately lower than 2003. Based on the Company's expectations regarding future payments for lawsuits and claims and also based on the Company's expected operating cash flow, the Company believes that the payment of any deferred amounts of previously settled or otherwise determined lawsuits and claims, and the resolution of presently pending and anticipated future lawsuits and claims associated with asbestos, will not have a material adverse effect upon the Company's liquidity on a short-term or long-term basis.

For 2003, cash provided by operating activities (continuing operations) was $305.0 million compared with $431.9 million for 2002. The decrease is due in part to an overall increase in working capital. The increase in working capital is partially due to an increase in inventories in domestic glass container operations partially due to lower shipments. Inventory levels in domestic plastic containers and the Australian glass container operations were also higher, as compared to the prior year. An increase in accounts receivable for certain European affiliates and for the Company's affiliate in Brazil was the result of increased sales. Cash flow in 2003 also lacks the benefit of a significant collection of past due accounts receivable from the Canadian acquisition which were collected in 2002. During 2004, the Company is continuing its focus on reducing inventory levels around the world and reducing accounts receivable balances by vigorously pursuing past due receivables.

For 2003, the Company's capital spending for additions to property, plant and equipment (continuing operations) was $344.4 million compared with $395.8 million for 2002. The Company continues to focus on reducing capital spending and improving its return on capital invested by improving capital efficiency. The Company expects to reduce its capital spending on existing facilities during 2004 by limiting the number of expansion projects and only undertaking projects with relatively short payback periods.

On July 11, 2003, the Company received payments totaling 100 million British pounds sterling (US$163.0 million) in connection with the sale to Ardagh Glass Limited of certain long-term notes receivable as discussed further above. The proceeds from the sale of the notes were used to reduce outstanding borrowings under the Second Amended and Restated Secured Credit Agreement.

For 2003, the Company received $66.7 million from divestitures and other asset sales compared with $39.0 million in 2002. Included in 2003 was approximately $44 million from the divestiture of certain closures assets as discussed above.

For 2003, the Company paid $44.5 million in finance fees related to the issuance of the Senior Secured and Senior Notes discussed above as well as the refinancing of the Second Amended and Restated Secured Credit Agreement. The Company paid $27.7 million in 2002 for the issuance of Senior Secured Notes. During 2003, the Company also paid and expensed $13.2 million of tender offer premiums.

For 2003, the Company paid $123.1 million related to debt hedging activity compared to $70.9 million in 2002. As discussed further below, the Company's strategy is to use currency and interest rate swaps to convert U.S. dollar borrowings by the Company's international subsidiaries, principally in Australia, into local currency borrowings. During 2003, as a result of the U.S. dollar's

decline against several foreign currencies, including the Australian dollar and the Canadian dollar, the Company paid significant amounts to settle these swaps at their maturity. The increase from prior year is largely due to a significantly larger decline in the U.S. dollar against the foreign currencies.

The Company anticipates that cash flow from its operations and from utilization of credit available under the Third Amended and Restated Secured Credit Agreement will be sufficient to fund its operating and seasonal working capital needs, debt service and other obligations on a short-term and long-term basis.

*Contractual Obligations and Off-Balance Sheet Arrangements*

The following information summarizes the Company's significant contractual cash obligations at December 31, 2003 (millions of dollars).

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than one year | 1-3 years | 3-5 years | More than 5 years |
| Contractual cash obligations: | | | | | |
| Long-term debt | $ 5,394.0 | $ 62.7 | $ 428.9 | $ 1,870.4 | $ 3,032.0 |
| Capital lease obligations | 2.9 | 1.1 | 1.4 | 0.4 | |
| Operating leases | 245.2 | 72.7 | 94.5 | 46.1 | 31.9 |
| Interest | 2,719.3 | 408.6 | 784.6 | 949.7 | 576.4 |
| Pension benefit plan contributions | 33.9 | 33.9 | | | |
| Postretirement benefit plan benefit payments | 292.4 | 30.6 | 60.8 | 59.7 | 141.3 |
| Total contractual cash obligations | $ 8,687.7 | $ 609.6 | $ 1,370.2 | $ 2,926.3 | $ 3,781.6 |

| | Amount of commitment expiration per period | | | | |
|---|---|---|---|---|---|
| | Total | Less than one year | 1-3 years | 3-5 years | More than 5 years |
| Other commercial commitments: | | | | | |
| Standby letters of credit | $ 125.4 | $ 125.4 | | | |
| Guarantees | 9.0 | | | | $ 9.0 |
| Total commercial commitments | $ 134.4 | $ 125.4 | $ — | $ — | $ 9.0 |

As part of the BSN Acquisition, the Company acquired a trade accounts receivable securitization program through a BSN subsidiary, BSN Glasspack Services. The program was entered into by BSN in order to provide lower interest costs on a portion of its financing. In November 2000, BSN created a securitization program for its trade receivables through a sub-fund (the "fund") created in accordance with French Law. This securitization program, co-arranged by Credit Commercial de France (HSBC-CCF), and Gestion et Titrisation Internationales ("GTI") and managed by GTI, provides for an aggregate securitization volume of up to 210 million euros.

Under the program, BSN Glasspack Services is permitted to sell receivables to the fund until November 5, 2006. According to the program, subject to eligibility criteria, certain, but not all, receivables held by the BSN Glasspack Services are sold to the fund on a weekly basis. The purchase price for the receivables is determined as a function of the book value and the term of each receivable and a Euribor three-month rate increased by a 1.51% margin. A portion of the purchase price for the receivables is deferred and paid by the fund to BSN Glasspack Services only when receivables are collected or at the end of the program. This deferred portion varies based on the status and updated collection history of BSN Glasspack Services' receivable portfolio.

The transfer of the receivables to the fund is deemed to be a sale for U.S. GAAP purposes. The fund assumes all collection risk on the receivables and the transferred receivables have been isolated from BSN Glasspack Services and are no longer controlled by BSN Glasspack Services. The total securitization program cannot exceed 210 million euros ($259.0 million U.S. dollars at September 30, 2004). At September 30, 2004, the Company had $208.4 million U.S. dollars of receivables that were sold in this program. For the three months ended September 30, 2004, the Company received $389.7 million from the sale of receivables to the fund and paid interest of approximately $1.6 million.

BSN Glasspack Services continues to service, administer and collect the receivables on behalf of the fund. This service rendered to the fund is invoiced to the fund at a normal market rate.

**Critical Accounting Estimates**

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

The Company believes that accounting for pension benefit plans and goodwill involves the more significant judgments and estimates used in the preparation of its consolidated financial statements.

*Pension Benefit Plans*

The Company recorded pension expense totaling approximately $6.4 million for the first nine months of 2004 and pretax pension credits of $22.6 million for the first nine months of 2003 from its principal defined benefit pension plans. The 2004 decrease in pretax pension credits is attributed to several factors discussed below.

The determination of pension obligations and the related pension credits involves significant estimates. The most significant estimates are the discount rate used to calculate the actuarial present value of benefit obligations and the expected long-term rate of return on assets used in calculating the pension credits for the year. The Company uses discount rates based on yields of highly rated fixed income debt securities at the end of the year. At December 31, 2003, the weighted average discount rate for all plans was 6.1%. The Company uses an expected long-term rate of return on assets that is based on both past performance of the various plans' assets and estimated future performance of the assets. Past performance of the Company's pension plan assets has been particularly volatile in the last four years. Investment returns exceeded 20% during 2003 but were negative in each of the years 2000-2002. The Company refers to average historical returns over longer periods (up to 10 years) in setting its rates of return because short-term fluctuations in market value do not reflect the rates of return the Company expects to achieve based upon its long-term investing strategy. For 2004, the Company is using a weighted average expected long-term rate of return on pension assets of approximately 8.8% compared to 8.7% for the year ended December 31, 2003. The lower pretax credits to earnings in 2004 are principally attributable to a lower asset base, higher amortization of previous actuarial losses and generally lower discount rates (6.10% for 2004 compared with 6.52% for 2003). Depending on international exchange rates and including BSN, the Company expects to record approximately $11.0 million of pension expense for the full year of 2004, compared with credits to earnings of $29.9 million in 2003.

Future effects on reported results of operations depend on economic conditions and investment performance. For example, a one-half percentage point change in the actuarial assumption regarding the expected return on assets would result in a change of approximately $16 million in pretax pension credits for the full year 2004. In addition, changes in external factors, including the fair values of plan assets and the discount rates used to calculate plan liabilities, could result in possible future balance sheet recognition of additional minimum pension liabilities.

If the Accumulated Benefit Obligation ("ABO") of any pension plan of the Company in the U.S. or Australia exceeds the fair value of its assets at the next measurement date of December 31, 2004, the Company will be required to write off the related prepaid pension asset and record a liability equal to the excess of the ABO over the fair value of the asset of such plan at the next measuring date of December 31, 2004. The non-cash charge would result in a decrease in the Accumulated Other Comprehensive Income component of share owners' equity that would significantly reduce net worth. Amounts related to the Company's U.S. and Australian plans as of December 31, 2003 were as follows (millions of dollars):

| | U.S. Salary | U.S. Hourly | Australian Plans | Total |
|---|---|---|---|---|
| Fair value of assets | $ 796.2 | $ 1,496.4 | $ 97.3 | $ 2,389.9 |
| Accumulated benefit obligations | 748.7 | 1,358.9 | 83.9 | 2,191.5 |
| Excess | $ 47.5 | $ 137.5 | $ 13.4 | $ 198.4 |
| Prepaid pension asset | $ 354.5 | $ 590.4 | $ 22.2 | $ 967.1 |

Even if the fair values of the U.S. plans' assets are less than ABO at December 31, 2004, however, the Company believes it will not be required to make cash contributions to the U.S. plans for at least several years. The covenants under the Company's Third Amended and Restated Secured Credit Agreement would not be affected by a reduction in the Company's net worth if a significant charge was taken to write off the prepaid pension assets.

*Contingencies and Litigation*

The Company believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot be estimated with certainty. The Company's ability to reasonably estimate its liability has been significantly affected by the volatility of asbestos-related litigation in the United States, the expanding list of non-traditional defendants that have been sued in this litigation and found liable for substantial damage awards, the continued use of litigation screenings to generate new lawsuits, the large number of claims asserted or filed by parties who claim prior exposure to asbestos materials but have no present physical impairment as a result of such exposure, and the growing number of co-defendants that have filed for bankruptcy. The Company believes that the bankruptcies of additional co-defendants have resulted in an acceleration of the presentation and disposition of a number of claims, which would otherwise have been presented and disposed of over the next several years. The Company continues to monitor trends which may affect its ultimate liability and continues to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company.

The Company completed a comprehensive review of its asbestos-related liabilities and costs in connection with finalizing and reporting its results for 2003, and expects to conduct a comprehensive review annually thereafter, unless significant changes in trends or new developments warrant an earlier review. If the results of the annual comprehensive review indicate that the existing amount of the accrued liability is insufficient to cover its estimated costs, then the Company will record an appropriate charge to increase the accrued liability. Following the completion of its comprehensive review during the fourth quarter of 2003, the Company concluded that an increase in the accrued liability was required to provide for estimated indemnity payments and legal fees arising from asbestos personal injury lawsuits and claims pending and expected to be filed in the next several years. The resulting charge of $450 million ($292.5 million after tax) was reflected in the results of operations for the fourth quarter of 2003.

The Company's estimates are based on a number of factors as described further in Note 19 to the Consolidated Financial Statements.

*Goodwill*

As required by FAS No. 142, "Goodwill and Other Intangibles," the Company evaluates goodwill annually (or more frequently if impairment indicators arise) for impairment. The Company conducts its evaluation as of October 1 of each year. Goodwill impairment testing is performed using the business enterprise value ("BEV") of each reporting unit which is calculated as of a measurement date by determining the present value of debt-free, after-tax future cash flows, discounted at the weighted average cost of capital of a hypothetical third-party buyer. This BEV is then compared to the book value of each reporting unit as of the measurement date to assess whether an impairment exists.

During the fourth quarter of 2003, the Company completed its annual impairment testing and determined that an impairment existed in the goodwill of its consumer products reporting unit. Following a review of the valuation of the unit's identifiable assets, the Company recorded an impairment charge of $670.0 million to reduce the reported value of its goodwill.

If the Company's projected debt-free, after-tax cash flows were substantially lower, or if the assumed weighted average cost of capital were substantially higher, the testing performed as of October 1, 2003, may have indicated an impairment of one or more of the Company's other reporting units and, as a result, the related goodwill would also have been written down. However, based on the Company's testing as of that date, modest changes in the projected cash flows or cost of capital would not have created impairment in other reporting units. For example, if projected debt-free, after-tax cash flows had been decreased by 5%, or alternatively if the weighted average cost of capital had been increased by 5%, the resulting lower BEV's would still have exceeded the book value of each reporting unit by a significant margin in all cases except for the Asia Pacific Glass reporting unit. Because the BEV for the Asia Pacific Glass reporting unit exceeded its book value by approximately 5%, the results of the impairment testing could be negatively affected by relatively modest changes in the assumptions and projections. At December 31, 2003, the goodwill of the Asia Pacific Glass reporting unit accounted for approximately $960 million of the Company's consolidated goodwill.

If the results of the October 1, 2004 impairment testing indicate that a write down of goodwill is necessary, then the Company will record a charge in the fourth quarter of 2004. In the event the Company would be required to record a significant write down of goodwill, the charge would have a material adverse effect on reported results of operations and net worth.

*Deferred Tax Assets*

FAS No. 109, "Accounting for Income Taxes," requires that a valuation allowance be recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are determined separately for each tax jurisdiction in which the company conducts its operations or otherwise incurs taxable income or losses. In the United States, the Company has recorded significant deferred tax assets, the largest of which relate to the accrued liability for asbestos-related costs that are not deductible until paid and to its net operating loss carryforwards. The deferred tax assets are partially offset by deferred tax liabilities, the most significant of which relates to the prepaid pension balance. The Company has recorded a valuation allowance for its U.S. tax credit carryforwards, however, it has not recorded a valuation allowance for the balance of its net U.S. deferred tax assets. The Company believes that its projected taxable income in the U.S., along with a number of prudent and feasible tax planning strategies, will be sufficient to utilize the net operating losses prior to their expiration. If the Company is unable to generate sufficient income from its U.S. operations or implement the required tax planning strategies, or if the Company is required to eliminate deferred tax liabilities in connection with a write off of its pension balance, then a valuation allowance will have to be provided. It is not possible to estimate the amount of the adjustment that may be required, however, based on recorded deferred taxes at December 31, 2003, the related non-cash tax charge could range as high as $425 million. The Company will assess the need to provide a valuation allowance annually or more frequently, if necessary.

**Quantitative and Qualitative Disclosure About Market Risk**

Market risks relating to the Company's operations result primarily from fluctuations in foreign currency exchange rates, changes in interest rates, and changes in commodity prices, principally natural gas. The Company uses certain derivative instruments to mitigate a portion of the risk associated with changing foreign currency exchange rates and fluctuating natural gas prices. In addition, the Company uses interest rate swap agreements to manage a portion of fixed and floating rate debt and to reduce interest expense.

**Foreign Currency Exchange Rate Risk**

A substantial portion of the Company's operations consists of manufacturing and sales activities conducted by subsidiaries in foreign jurisdictions. The primary foreign markets served by the Company's subsidiaries are in Canada, Australia, South America (principally Colombia, Brazil and Venezuela), and Europe (principally Italy, France, the Netherlands, Germany, the United Kingdom, and Poland). In general, revenues earned and costs incurred by the Company's major foreign affiliates are denominated in their respective local currencies. Consequently, the Company's reported financial results could be affected by factors such as changes in foreign currency exchange rates or highly inflationary economic conditions in the foreign markets in which the Company's subsidiaries operate. When the U.S. dollar strengthens against foreign currencies, the reported dollar value of local currency earnings generally decreases; when the U.S. dollar weakens against foreign currencies, the reported U.S. dollar value of local currency earnings generally increases. The Company does not have any significant foreign subsidiaries that are denominated in the U.S. dollar, however, if economic conditions in Venezuela continue to decline, the Company may have to adopt the U.S. dollar as its functional currency for its subsidiaries in that country.

Subject to other business and tax considerations, the Company's strategy is to generally redeploy any subsidiary's available excess funds through intercompany loans to other subsidiaries for debt repayment, capital investment, or other cash requirements. Each intercompany loan is denominated in the lender's local currency and the borrower enters into a forward exchange contract which effectively swaps the intercompany loan and related interest to its local currency.

Because the Company's subsidiaries operate within their local economic environment, the Company believes it is appropriate to finance those operations with local currency borrowings to the extent practicable where debt financing is required. Considerations which influence the amount of such borrowings include long- and short-term business plans, tax implications, and the availability of borrowings with acceptable interest rates and terms. In those countries where the local currency is the designated functional currency, this strategy mitigates the risk of reported losses or gains in the event the foreign currency strengthens or weakens against the U.S. dollar. In those countries where the U.S. dollar is the designated functional currency, however, local currency borrowings expose the Company to reported losses or gains in the event the foreign currency strengthens or weakens against the U.S. dollar.

The terms of the Third Amended and Restated Secured Credit Agreement require that borrowings under the Agreement be denominated in U.S. dollars except for the C2 term loan which allows for 52 million of euro borrowings and borrowings under certain limited overdraft facilities. In order to manage the exposure to fluctuating foreign exchange rates created by U.S. dollar borrowings by the Company's international subsidiaries, certain subsidiaries have entered into currency swaps for the principal amount of their borrowings under the Agreement and for their interest payments due under the Agreement.

At September 30, 2004, the Company's subsidiary in Australia had agreements that swap a total of U.S. $455 million of borrowings into 702 million Australian dollars. These derivative instruments swap both the interest and principal from U.S. dollars to Australian dollars and also swap the interest rate from a U.S.-based rate to an Australian-based rate. These agreements have various maturity dates ranging from April 2005 through March 2006.

The Company's subsidiaries in Australia, Canada, the United Kingdom and several other European countries have also entered into short term forward exchange contracts which effectively swap additional intercompany and external borrowings by each subsidiary into its local currency. These contracts swap both the interest and principal amount of borrowings in excess of amounts covered by the swap contracts described above.

A significant portion of the above Australian borrowings and the intercompany loans have been swapped into local currencies using currency swaps. The Company accounts for these swaps as fair value hedges. As a result, the changes in the value of the swaps are included in other expense and are expected to substantially offset any exchange rate gains or losses on the related U.S. dollar borrowings.

The remaining portion of the Company's consolidated debt which was denominated in foreign currencies was not significant.

The Company believes it does not have material foreign currency exchange rate risk related to local currency denominated financial instruments (i.e. cash, short-term investments, and long-term debt) of its subsidiaries outside the U.S.

**Interest Rate Risk**

The Company's interest expense is most sensitive to changes in the general level of U.S. interest rates applicable to its U.S. dollar indebtedness.

The following table provides information about the Company's significant interest rate risk at September 30, 2004.

| | Amount | Fair value |
|---|---|---|
| | (Millions of dollars) | |
| Variable rate debt: | | |
| Secured Credit Agreement, matures April 2007 and 2008: | | |
| Revolving Credit Facility, interest at various rates Revolving Loans | $ 3.9 | $ 3.9 |
| Term Loans, interest at a Eurodollar based rate plus 2.00% | | |
| A1 Term Loan | 380.0 | 380.0 |
| B1 Term Loan | 840.0 | 840.0 |
| C Term Loan | 395.0 | 395.0 |
| C1 Term Loan | 230.0 | 300.0 |
| C2 Term Loan (52 million euros) | 64.1 | 62.7 |
| D Term Loan | 240.0 | 240.0 |
| Fixed rate debt: | | |
| Senior Secured Notes: | | |
| 8.875%, due 2009 | 1,000.0 | 1,085.0 |
| 7.75%, due 2011 | 450.0 | 481.5 |
| 8.75%, due 2012 | 625.0 | 692.2 |
| Senior Notes: | | |
| 8.25%, due 2013 | 450.0 | 479.3 |
| 7.15%, due 2005 | 350.0 | 354.4 |
| 8.10%, due 2007 | 300.0 | 314.2 |
| 7.35%, due 2008 | 250.0 | 255.6 |
| 8.25%, due 2013 | 450.0 | 478.1 |
| Senior Debentures | | |
| 7.50%, due 2010 | 250.0 | 254.4 |
| 7.80%, due 2018 | 250.0 | 251.3 |
| Senior Subordinated Notes: | | |
| 10.25%, due 2009 (147.3 million euros) | 181.6 | 181.6 |
| 9.25%, due 2009 (167.6 million euros) | 206.6 | 206.6 |

**Interest Rate Swap Agreements**

In the fourth quarter of 2003 and the first quarter of 2004, the Company entered into a series of interest rate swap agreements with a total notional amount of $1.25 billion that mature from 2007 through 2013. The swaps were executed in order to: (i) convert a portion of the senior notes and senior debentures fixed-rate debt into floating-rate debt; (ii) maintain a capital structure containing appropriate amounts of fixed and floating-rate debt; and (iii) reduce net interest payments and expense in the near-term.

The Company's fixed-to-variable interest rate swaps are accounted for as fair value hedges. Because the relevant terms of the swap agreements match the corresponding terms of the notes, there is no hedge ineffectiveness. Accordingly, as required by FAS No. 133, the Company recorded the net of the fair market values of the swaps as a long-term liability along with a corresponding net decrease in the carrying value of the hedged debt.

Under the swaps, the Company receives fixed rate interest amounts (equal to interest on the corresponding hedged note) and pays interest at a six month U.S. LIBOR rate (set in arrears) plus a margin spread (see table below). The interest rate differential on each swap is recognized as an adjustment of interest expense over the term of the agreement.

The following selected information relates to fair value swaps at September 30, 2004 (based on a projected U.S. LIBOR rate of 2.5178%):

| | Amount Hedged | Average Receive Rate | Average Spread | Asset (Liability) Recorded |
|---|---|---|---|---|
| Senior Notes due 2007 | $ 300.0 | 8.10% | 4.5% | $ (0.1) |
| Senior Notes due 2008 | 250.0 | 7.35% | 3.5% | (0.3) |
| Senior Debentures due 2010 | 250.0 | 7.50% | 3.2% | 0.9 |
| Senior Notes due 2013 | 450.0 | 8.25% | 3.7% | (9.5) |
| Total | $ 1,250.0 | | | $ (9.0) |

**Commodity Risk**

The Company also uses commodity futures contracts related to forecasted natural gas requirements. The objective of these futures contracts is to limit the fluctuations in prices paid for natural gas and the potential volatility in earnings or cash flows from future market price movements. The Company continually evaluates the natural gas market with respect to its future usage requirements. The Company generally evaluates the natural gas market for the next twelve to eighteen months and continually enters into commodity futures contracts in order to hedge a portion of its usage requirements through the next twelve to eighteen months. At September 30, 2004, the Company had entered into commodity futures contracts for approximately 75% (approximately 4,500,000 MM BTUs) of its expected North American natural gas usage for the last three months of 2004, approximately 72% (approximately 17,280,000 MM BTUs) for the full year of 2005 and approximately 22% (approximately 5,280,000 MM BTUs) for the full year of 2006.

The Company accounts for the above futures contracts on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in accumulated other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. Any material portion of the change in the fair value of a derivative designated as a cash flow hedge that is deemed to be ineffective is recognized in current earnings.

The above futures contracts are accounted for as cash flow hedges at September 30, 2004. Hedge accounting is only applied when the derivative is deemed to be highly effective at offsetting anticipated cash flows of the hedged transactions. For hedged forecasted transactions, hedge accounting will be discontinued if the forecasted transaction is no longer probable to occur, and any previously deferred gains or losses will be recorded to earnings immediately.

At September 30, 2004, an unrealized net gain of $13.7 million, after tax of $7.4 million, related to these commodity futures contracts was included in OCI. The ineffectiveness related to these natural gas hedges for the three and nine months ended September 30, 2004 and 2003 was not material.

QuickLinks

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF OWENS-ILLINOIS, INC.

QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 99.3**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Share Owners
Owens-Illinois, Inc.

We have audited the accompanying consolidated balance sheets of Owens-Illinois, Inc. as of December 31, 2003 and 2002, and the related consolidated statements of results of operations, share owners' equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule on page F-52. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Owens-Illinois, Inc. at December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with U.S generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 in the Notes to the Consolidated Financial Statements, in 2002 the Company changed its accounting for goodwill.

Ernst & Young LLP

Toledo, Ohio
January 26, 2004, except for Note 23,
as to which the date is November 12, 2004

**CONSOLIDATED RESULTS OF OPERATIONS**
**Owens-Illinois, Inc.**
**Dollars in millions, except per share amounts**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Revenues: | | | |
| Net sales | $ 4,975.6 | $ 4,621.2 | $ 4,343.7 |
| Royalties and net technical assistance | 17.5 | 17.4 | 17.1 |
| Equity earnings | 27.1 | 27.0 | 18.8 |
| Interest | 20.4 | 22.8 | 25.4 |
| Other | 25.2 | 42.8 | 537.9 |
| | 5,065.8 | 4,731.2 | 4,942.9 |
| Costs and expenses: | | | |
| Manufacturing, shipping, and delivery | 3,967.9 | 3,572.9 | 3,359.3 |
| Research and development | 29.9 | 21.1 | 20.1 |
| Engineering | 34.7 | 36.5 | 29.1 |
| Selling and administrative | 320.9 | 287.9 | 314.1 |
| Interest | 429.8 | 372.2 | 360.3 |
| Other | 720.6 | 503.1 | 209.1 |
| | 5,503.8 | 4,793.7 | 4,292.0 |
| Earnings (loss) from continuing operations before items below | (438.0) | (62.5) | 650.9 |
| Provision (credit) for income taxes | (133.7) | (49.8) | 266.4 |
| | (304.3) | (12.7) | 384.5 |
| Minority share owners' interests in earnings of subsidiaries | 25.8 | 25.5 | 19.5 |
| Earnings (loss) from continuing operations before cumulative effect of accounting change | (330.1) | (38.2) | 365.0 |
| Net earnings (loss) of discontinued operations | (660.7) | 38.0 | (8.4) |
| Cumulative effect of accounting change | | (460.0) | |
| Net (loss) earnings | $ (990.8) | $ (460.2) | $ 356.6 |

See accompanying Notes to the Consolidated Financial Statements.

| | Years ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Basic earnings (loss) per share of common stock: | | | |
| Earnings (loss) from continuing operations before cumulative effect of accounting change | $ (2.39) | $ (0.41) | $ 2.36 |
| Net earnings (loss) of discontinued operations | (4.50) | 0.26 | (0.06) |
| Cumulative effect of accounting change | | (3.14) | |
| Net earnings (loss) | $ (6.89) | $ (3.29) | $ 2.30 |
| Diluted earnings (loss) per share of common stock: | | | |
| Earnings (loss) from continuing operations before cumulative effect of accounting change | $ (2.39) | $ (0.41) | $ 2.36 |
| Net earnings (loss) of discontinued operations | (4.50) | 0.26 | (0.06) |
| Cumulative effect of accounting change | | (3.14) | |
| Net earnings (loss) | $ (6.89) | $ (3.29) | $ 2.30 |

**CONSOLIDATED BALANCE SHEETS**
**Owens-Illinois, Inc.**
**Dollars in millions**

| | December 31, | |
|---|---|---|
| | 2003 | 2002 |
| **Assets** | | |
| **Current assets:** | | |
| Cash, including time deposits of $85.2 ($38.6 in 2002) | $ 163.4 | $ 126.4 |
| Short-term investments | 26.8 | 17.6 |
| Receivables, less allowances of $52.0 ($62.5 in 2002) for losses and discounts | 769.7 | 701.9 |
| Inventories | 1,010.1 | 893.5 |
| Prepaid expenses | 151.8 | 147.8 |
| Total current assets | 2,121.8 | 1,887.2 |
| **Other assets:** | | |
| Equity investments | 145.3 | 192.0 |
| Repair parts inventories | 201.0 | 196.2 |
| Prepaid pension | 967.1 | 925.5 |
| Insurance receivable for asbestos-related costs | 5.6 | 12.2 |
| Deposits, receivables, and other assets | 423.3 | 640.9 |
| Goodwill | 2,280.2 | 2,691.2 |
| Total other assets | 4,022.5 | 4,658.0 |
| **Property, plant, and equipment:** | | |
| Land, at cost | 172.6 | 167.0 |
| Buildings and equipment, at cost: | | |
| Buildings and building equipment | 927.8 | 838.1 |
| Factory machinery and equipment | 4,981.3 | 4,595.5 |
| Transportation, office, and miscellaneous equipment | 157.5 | 141.7 |
| Construction in progress | 172.5 | 235.9 |
| | 6,411.7 | 5,978.2 |
| Less accumulated depreciation | 3,024.7 | 2,654.1 |
| Net property, plant, and equipment | 3,387.0 | 3,324.1 |
| Total assets | $ 9,531.3 | $ 9,869.3 |

| | December 31, | |
|---|---|---|
| | 2003 | 2002 |
| **Liabilities and Share Owners' Equity** | | |
| **Current liabilities:** | | |
| Short-term loans | $ 28.6 | $ 47.5 |
| Accounts payable | 541.5 | 514.2 |
| Salaries and wages | 117.4 | 119.1 |
| U.S. and foreign income taxes | 26.9 | 28.9 |
| Current portion of asbestos-related liabilities | 175.0 | 195.0 |
| Other accrued liabilities | 410.2 | 362.0 |
| Long-term debt due within one year | 63.8 | 30.7 |
| Total current liabilities | 1,363.4 | 1,297.4 |
| **Long-term debt** | 5,333.1 | 5,268.0 |
| **Deferred taxes** | 119.6 | 278.4 |
| **Nonpension postretirement benefits** | 284.8 | 291.5 |
| **Other liabilities** | 637.2 | 563.6 |
| **Asbestos-related liabilities** | 628.7 | 357.7 |
| **Commitments and contingencies** | | |
| **Minority share owners' interests** | 161.1 | 141.9 |
| **Share owners' equity:** | | |
| Convertible preferred stock, par value $.01 per share, liquidation preference $50 per share, 9,050,000 shares authorized, issued and outstanding | 452.5 | 452.5 |
| Common stock, par value $.01 per share, 250,000,000 shares authorized, 160,768,191 shares issued and outstanding, less 12,914,262 treasury shares at December 31, 2003 (160,265,744 issued and outstanding, less 12,914,262 treasury shares at December 31, 2002) | 1.6 | 1.6 |
| Capital in excess of par value | 2,229.3 | 2,224.9 |
| Treasury stock, at cost | (247.6) | (247.6) |
| Retained earnings (deficit) | (1,189.3) | (177.0) |
| Accumulated other comprehensive income (loss) | (243.1) | (583.6) |
| Total share owners' equity | 1,003.4 | 1,670.8 |
| Total liabilities and share owners' equity | $ 9,531.3 | $ 9,869.3 |

See accompanying Notes to the Consolidated Financial Statements.

**CONSOLIDATED SHARE OWNERS' EQUITY**
**Owens-Illinois, Inc.**
**Dollars in millions, except per share amounts**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| **Convertible preferred stock** | | | |
| Balance at beginning of year | $ 452.5 | $ 452.5 | $ 452.5 |
| Balance at end of year | 452.5 | 452.5 | 452.5 |
| **Exchangeable preferred stock** | | | |
| Balance at beginning of year | | | 3.4 |
| Exchange of preferred stock for common stock | | | (3.4) |
| Balance at end of year | — | — | — |
| **Common stock** | | | |
| Balance at beginning of year | 1.6 | 1.6 | 1.6 |
| Balance at end of year | 1.6 | 1.6 | 1.6 |
| **Capital in excess of par value** | | | |
| Balance at beginning of year | 2,224.9 | 2,217.3 | 2,205.1 |
| Issuance of common stock | 4.4 | 7.6 | 8.8 |
| Exchange of preferred stock for common stock | | | 3.4 |
| Balance at end of year | 2,229.3 | 2,224.9 | 2,217.3 |
| **Treasury stock** | | | |
| Balance at beginning of year | (247.6) | (248.0) | (242.8) |
| Reissuance of common stock | | 0.4 | |
| Repurchases of common stock | | | (5.2) |
| Balance at end of year | (247.6) | (247.6) | (248.0) |

| | Years ended December 31, | | |
| --- | --- | --- | --- |
| | 2003 | 2002 | 2001 |
| **Retained earnings (deficit)** | | | |
| Balance at beginning of year | (177.0) | 304.7 | (30.4) |
| Cash dividends on convertible preferred stock—$2.375 per share | (21.5) | (21.5) | (21.5) |
| Net earnings (loss) | (990.8) | (460.2) | 356.6 |
| Balance at end of year | (1,189.3) | (177.0) | 304.7 |
| **Accumulated other comprehensive income (loss)** | | | |
| Balance at beginning of year | (583.6) | (576.3) | (506.4) |
| Foreign currency translation adjustments | 361.0 | 79.5 | (67.4) |
| Change in minimum pension liability, net of tax | (19.3) | (91.5) | |
| Change in fair value of certain derivative instruments, net of tax | (1.2) | 4.7 | (2.5) |
| Balance at end of year | (243.1) | (583.6) | (576.3) |
| Total share owners' equity | $ 1,003.4 | $ 1,670.8 | $ 2,151.8 |
| **Total comprehensive income (loss)** | | | |
| Net earnings (loss) | $ (990.8) | $ (460.2) | $ 356.6 |
| Foreign currency translation adjustments | 361.0 | 79.5 | (67.4) |
| Change in minimum pension liability, net of tax | (19.3) | (91.5) | |
| Change in fair value of certain derivative instruments, net of tax | (1.2) | 4.7 | (2.5) |
| Total comprehensive income (loss) | $ (650.3) | $ (467.5) | $ 286.7 |

See accompanying Notes to the Consolidated Financial Statements.

## CONSOLIDATED CASH FLOWS
**Owens-Illinois, Inc.**
**Dollars in millions**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| **Operating activities:** | | | |
| Earnings (loss) from continuing operations before cumulative effect of accounting change | $ (330.1) | $ (38.2) | $ 365.0 |
| Non-cash charges (credits): | | | |
| Depreciation | 391.9 | 353.4 | 335.9 |
| Amortization of deferred costs | 21.4 | 21.5 | 77.7 |
| Amortization of deferred finance fees | 14.4 | 16.1 | 15.0 |
| Deferred tax provision (credit) | (182.7) | (114.1) | 225.9 |
| Impairment of goodwill and write-down of equity investment | 50.0 | | |
| Restructuring costs and writeoffs of certain assets | 115.5 | | 102.7 |
| Loss on sale of long-term notes receivable | 37.4 | | |
| Loss on sale of certain closures assets | 41.3 | | |
| Gains on asset sales | | | (439.4) |
| Future asbestos-related costs | 450.0 | 475.0 | |
| Other | (50.3) | (120.5) | (103.8) |
| Change in non-current operating assets | (7.5) | 25.3 | 18.0 |
| Asbestos-related payments | (199.0) | (221.1) | (245.9) |
| Asbestos-related insurance proceeds | 6.6 | 24.8 | 163.7 |
| Reduction of non-current liabilities | (13.4) | (8.4) | (30.0) |
| Change in components of working capital | (40.5) | 18.1 | (89.0) |
| Cash provided by continuing operating activities | 305.0 | 431.9 | 395.8 |
| Cash provided by discontinued operating activities | 48.1 | 171.2 | 142.3 |
| Total cash from operating activities | 353.1 | 603.1 | 538.1 |
| **Investing activities:** | | | |
| Additions to property, plant and equipment—continuing | (344.4) | (395.8) | (424.2) |
| Additions to property, plant and equipment—discontinued | (87.1) | (100.2) | (107.7) |
| Acquisitions, net of cash acquired | | (17.6) | (184.6) |
| Proceeds from sale of long-term notes receivable | 163.0 | | |
| Net cash proceeds from divestitures and other | 66.7 | 39.0 | 605.3 |
| Cash utilized in investing activities | (201.8) | (474.6) | (111.2) |
| **Financing activities:** | | | |
| Additions to long-term debt | 2,154.5 | 2,129.3 | 3,899.8 |
| Repayments of long-term debt | (2,063.4) | (2,190.8) | (4,239.6) |
| Increase (decrease) in short-term loans | (28.0) | 17.5 | (44.4) |
| Net payments for debt-related hedging activity | (123.1) | (70.9) | (26.1) |
| Payment of finance fees and debt retirement costs | (44.5) | (27.7) | (62.1) |
| Convertible preferred stock dividends | (21.5) | (21.5) | (21.5) |
| Issuance of common stock | 3.6 | 6.8 | 2.4 |
| Treasury shares purchased | | | (5.2) |
| Cash utilized in financing activities | (122.4) | (157.3) | (496.7) |
| Effect of exchange rate fluctuations on cash | 8.1 | (0.4) | (4.3) |
| Increase (decrease) in cash | 37.0 | (29.2) | (74.1) |
| Cash at beginning of year | 126.4 | 155.6 | 229.7 |
| Cash at end of year | $ 163.4 | $ 126.4 | $ 155.6 |

See accompanying Notes to the Consolidated Financial Statements.

## 1. Significant Accounting Policies

**Basis of Consolidated Statements** The consolidated financial statements of Owens-Illinois, Inc. ("Company") include the accounts of its subsidiaries. Newly acquired subsidiaries have been included in the consolidated financial statements from dates of acquisition. Results of operations for the divested blow-molded plastic container business have been presented as a discontinued operation.

The Company uses the equity method of accounting for investments in which it has a significant ownership interest, generally 20% to 50%. Other investments are accounted for at cost.

**Nature of Operations** The Company is a leading manufacturer of glass container and plastics packaging products operating in two product segments. The Company's principal product lines in the Glass Containers product segment are glass containers for the food and beverage industries. Sales of the Glass Containers product segment were 84% of the Company's 2003 consolidated sales. The Company has glass container operations located in 19 countries, while the plastics packaging products operations are located in 7 countries. The principal markets and operations for the Company's glass products are in North America, Europe, South America, and Australia. The Company's principal product lines in the Plastics Packaging product segment include (plastic healthcare containers and closures) and prescription products. Major markets for the Company's plastics packaging products include the United States health care products.

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates, at which time the Company would revise its estimates accordingly. For further information on certain of the Company's significant estimates relative to contingent liabilities, see Note 19.

**Cash** The Company defines "cash" as cash and time deposits with maturities of three months or less when purchased. Outstanding checks in excess of funds on deposit are included in accounts payable.

**Fair Values of Financial Instruments** The carrying amounts reported for cash, short-term investments and short-term loans approximate fair value. In addition, carrying amounts approximate fair value for certain long-term debt obligations subject to frequently redetermined interest rates. Fair values for the Company's significant fixed rate debt obligations are generally based on published market quotations.

**Derivative Instruments** The Company uses interest rate swaps, currency swaps, and commodity futures contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity market volatility. Derivative financial instruments are included on the balance sheet at fair value. All hedging instruments are designated and effective as hedges, in accordance with accounting principles generally accepted in the United States. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. The Company does not enter into derivative financial instruments for trading purposes and is not a party to leveraged derivatives. See Note 9 for additional information related to derivative instruments.

**Inventory Valuation** The Company values most U.S. inventories at the lower of last-in, first-out (LIFO) cost or market. Other inventories are valued at the lower of standard costs (which approximate average costs) or market.

**Goodwill** Goodwill represents the excess of cost over fair value of assets of businesses acquired. Through December 31, 2001, goodwill was being amortized over 40 years. In accordance with Statement of Financial Accounting Standards ("FAS") No. 142 (as described below in "New Accounting Standards"), goodwill is no longer being amortized, but is being evaluated annually, as of October 1, for impairment or more frequently if an impairment indicator exists.

**Intangible Assets and Other Long-Lived Assets** Intangible assets are amortized over the expected useful life of the asset. The Company evaluates the recoverability of intangible assets and other long-lived assets based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

**Property, Plant, and Equipment** Property, plant and equipment ("PP&E") is carried at cost and includes expenditures for new facilities and equipment and those costs which substantially increase the useful lives or capacity of existing PP&E. In general, depreciation is computed using the straight-line method. Factory machinery and equipment is depreciated over periods ranging from 5 to 25 years and buildings and building equipment over periods ranging from 10 to 50 years. Maintenance and repairs are expensed as incurred. Costs assigned to PP&E of acquired businesses are based on estimated fair values at the date of acquisition.

**Revenue Recognition** The Company recognizes sales, net of estimated discounts and allowances, when the title to the products and risk of loss are transferred to customers. Provisions for rebates to customers are provided in the same period that the related sales are recorded.

**Shipping and Handling Costs** Shipping and handling costs are included with manufacturing, shipping, and delivery costs in the Consolidated Statements of Operations.

**Income Taxes on Undistributed Earnings** In general, the Company plans to continue to reinvest the undistributed earnings of foreign subsidiaries and foreign corporate joint ventures accounted for by the equity method. Accordingly, taxes are provided only on that amount of undistributed earnings in excess of planned reinvestments.

**Foreign Currency Translation** The assets and liabilities of most subsidiaries and associates are translated at current exchange rates and any related translation adjustments are recorded directly in share owners' equity. For the year ended December 31, 2001, the Company's subsidiaries located in Venezuela operated in a "highly inflationary" economy. Therefore, certain assets of those subsidiaries were translated at historical exchange rates and all translation adjustments were reflected in the statements of Consolidated Results of Operations. During 2002, the subsidiaries in Venezuela were no longer considered operating in a "highly inflationary" economy. Assets and liabilities were translated at current exchange rates with any related translation adjustments being recorded directly to share owners' equity.

**Accounts Receivable** Receivables are stated at amounts estimated by management to be the net realizable value. The Company charges off accounts receivable when it becomes apparent based upon age or customer circumstances that amounts will not be collected.

**Allowance for Doubtful Accounts** The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk.

**Stock Options** The Company has three nonqualified stock option plans, which are described more fully in Note 13. The Company has adopted the disclosure-only provisions (intrinsic value method) of FAS No. 123, "Accounting for Stock-Based Compensation." All options have been granted at prices equal to the market price of the Company's common stock on the date granted. Accordingly, the Company recognizes no compensation expense related to the stock option plans.

If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date as allowed by FAS No. 123, pro forma net income (loss) and earnings (loss) per share would have been as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net income (loss): | | | |
| As reported | $ (990.8) | $ (460.2) | $ 356.6 |
| Total stock-based employee compensation expense determined under fair value based method, net of related tax effects | (6.4) | (9.1) | (8.9) |
| Pro forma | $ (997.2) | $ (469.3) | $ 347.7 |
| Basic earnings (loss) per share: | | | |
| As reported | $ (6.89) | $ (3.29) | $ 2.30 |
| Pro forma | (6.93) | (3.35) | 2.24 |
| Diluted earnings (loss) per share: | | | |
| As reported | (6.89) | (3.29) | 2.30 |
| Pro forma | (6.93) | (3.35) | 2.24 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Expected life of options | 5 years | 5 years | 5 years |
| Expected stock price volatility | 72.7% | 71.5% | 69.8% |
| Risk-free interest rate | 3.1% | 4.5% | 4.9% |
| Expected dividend yield | 0.0% | 0.0% | 0.0% |

**New Accounting Standards**

FAS No. 132 (Revised). In December 2003, the Financial Accounting Standards Board issued FAS No. 132 (Revised) "Employers' Disclosure about Pensions and Other Postretirement Benefits". The revised statement requires additional disclosures to those in the original FAS No. 132 about the assets, obligations, cash flows, and net periodic benefit costs of defined benefit pension plans and other defined benefit postretirement plans. Except for certain disclosures for foreign pension plans and for benefit obligations, FAS No. 132 (Revised) was effective for financial statements with fiscal years ending after December 15, 2003 and has been adopted by the Company.

FAS No. 142. On January 1, 2002, the Company adopted FAS No. 142, "Goodwill and Other Intangible Assets". As required by FAS No. 142, Goodwill is no longer being amortized, but is being evaluated annually as of October 1, for impairment or more frequently if an impairment indicator exists.

The following earnings and earnings per share data for 2001 have been presented on an adjusted basis to eliminate goodwill amortization of $55.9 million, or $0.38 per share for 2001 as required by FAS No. 142. The earnings and earnings per share data for 2003 and 2002 have been presented to provide comparative data to the 2001 adjusted earnings and earning per share data.

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | (Actual) | (Actual) | (Adjusted) |
| Earnings (loss) from continuing operations before cumulative effect of accounting change | $ (330.1) | $ (38.2) | $ 420.9 |
| Per share—basic | (2.39) | (0.41) | 2.74 |
| Per share—diluted | (2.39) | (0.41) | 2.74 |
| Net earnings (loss) | $ (990.8) | $ (460.2) | $ 448.9 |
| Per share—basic | (6.89) | (3.29) | 2.94 |
| Per share—diluted | (6.89) | (3.29) | 2.94 |

FAS No. 145. In April 2002, the FASB issued FAS No. 145, "Rescission of FASB Statements No. 4, No. 44, and No. 64, Amendment of FASB Statement No. 13, and Technical Corrections". Among other things, FAS No. 145 requires gains and losses from early extinguishment of debt to be included in income from continuing operations instead of being classified as extraordinary items as previously required by generally accepted accounting principles. FAS No. 145 is effective for fiscal years beginning after May 15, 2002 and was adopted by the Company on January 1, 2003. Any gain or loss on early extinguishment of debt that was classified as an extraordinary item in periods prior to adoption must be reclassified into income from continuing operations. The Company has reclassified $9.6 million and $4.1 million of extraordinary charges for 2002 and 2001, respectively. Interest expense was increased by $15.4 million and $6.6 million and the provision for income taxes was decreased by $5.8 million and $2.5 million for 2002 and 2001, respectively. Amounts above include an increase to interest expense for discontinued operations of $6.3 million and $1.9 million and the provision for income taxes was decreased by $2.4 million and $0.7 million for 2002 and 2001, respectively.

FIN 46 (Revised). In January 2003, the FASB issued FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 sets forth the criteria used in determining

whether an investment in a variable interest entity ("VIE") should be consolidated and is based on the general premise that a company that controls another entity through interests other than voting interests should consolidate the controlled entity. FIN No. 46 is effective at the end of periods ending after December 15, 2003 for companies that have interest in structures that are commonly referred to as special-purpose entities. FIN No. 46 is effective for all other types of variable interest entities for periods ending after March 15, 2004. The Company does not have an interest in any structure that would be considered a special-purpose entity and therefore, FIN No. 46 will be adopted by the Company on March 31, 2004. Adoption of this interpretation is not expected to have a material impact on the Company's results of operations or financial position.

**2. Earnings Per Share** The following table sets forth the computation of basic and diluted earnings per share:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Numerator: | | | |
| Earnings (loss) from continuing operations before cumulative effect of accounting change | $ (330.1) | $ (38.2) | $ 365.0 |
| Preferred stock dividends: | | | |
| Convertible | (21.5) | (21.5) | (21.5) |
| Exchangeable | | | |
| Numerator for basic earnings (loss) per share—income (loss) available to common share owners | $ (351.6) | $ (59.7) | $ 343.5 |
| Denominator: | | | |
| Denominator for basic earnings (loss) per share—weighted average shares outstanding | 146,913,819 | 146,615,931 | 145,456,118 |
| Effect of dilutive securities: | | | |
| Stock options and other | | | 199,284 |
| Exchangeable preferred stock | | | 5,200 |
| Dilutive potential common shares | | | 204,484 |
| Denominator for diluted earnings (loss) per share—adjusted weighted average shares and assumed exchanges of preferred stock for common stock | 146,913,819 | 146,615,931 | 145,660,602 |
| Basic earnings (loss) per share from continuing operations before cumulative effect of accounting change | $ (2.39) | $ (0.41) | $ 2.36 |
| Diluted earnings (loss) per share from continuing operations before cumulative effect of accounting change | $ (2.39) | $ (0.41) | $ 2.36 |

See Note 12 for additional information on Convertible Preferred Stock.

The convertible preferred stock was not included in the computation of 2001 diluted earnings per share since the result would have been antidilutive. Options to purchase 7,776,942 weighted average

shares of common stock which were outstanding during 2001 were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares. For the years ended December 31, 2003 and 2002, diluted earnings per share of common stock is equal to basic earnings per share of common stock due to the net loss.

**3. Changes in Components of Working Capital Related to Operations** Changes in the components of working capital related to operations (net of the effects related to acquisitions and divestitures) were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Decrease (increase) in current assets: | | | |
| Short-term investments | $ (9.1) | $ (1.1) | $ 3.2 |
| Receivables | 13.7 | 34.8 | (0.2) |
| Inventories | (23.7) | (70.4) | 43.2 |
| Prepaid expenses | 2.0 | (13.9) | 3.4 |
| Increase (decrease) in current liabilities: | | | |
| Accounts payable | (13.3) | 56.0 | (36.1) |
| Accrued liabilities | (77.1) | 20.6 | (54.7) |
| Salaries and wages | (15.1) | 2.8 | 12.6 |
| U.S. and foreign income taxes | 27.6 | 13.5 | (41.0) |
| | $ (95.0) | $ 42.3 | $ (69.6) |
| Working capital of continuing operations | (40.5) | 18.1 | (89.0) |
| Working capital of discontinued operations | (54.5) | 24.2 | 19.4 |
| | $ (95.0) | $ 42.3 | $ (69.6) |

**4. Inventories** Major classes of inventory are as follows:

| | 2003 | 2002 |
|---|---|---|
| Finished goods | $ 789.4 | $ 684.9 |
| Work in process | 9.1 | 7.4 |
| Raw materials | 137.9 | 133.2 |
| Operating supplies | 73.7 | 68.0 |
| | $ 1,010.1 | $ 893.5 |

If the inventories which are valued on the LIFO method had been valued at standard costs, which approximate current costs, consolidated inventories would be higher than reported by $24.8 million and $17.8 million at December 31, 2003 and 2002, respectively.

Inventories which are valued at the lower of standard costs (which approximate average costs) or market at December 31, 2003 and 2002 were approximately $649.2 million and $532.4 million, respectively.

**5. Equity Investments** Summarized information pertaining to the Company's equity associates follows:

| | 2003 | 2002 |
|---|---|---|
| At end of year: | | |
| Equity in undistributed earnings: | | |
| Foreign | $ 95.4 | $ 94.2 |
| Domestic | 13.9 | 17.6 |
| Total | $ 109.3 | $ 111.8 |
| Equity in cumulative translation adjustment | $ (38.2) | $ (51.3) |

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| For the year: | | | |
| Equity in earnings: | | | |
| Foreign | $ 9.9 | $ 9.5 | $ 7.8 |
| Domestic | 17.2 | 17.5 | 11.0 |
| Continuing operations | 27.1 | 27.0 | 18.8 |
| Discontinued operations | | | 0.6 |
| Total | $ 27.1 | $ 27.0 | $ 19.4 |
| Dividends received | $ 31.1 | $ 29.2 | $ 18.2 |

**6. Long-Term Debt** The following table summarizes the long-term debt of the Company at December 31, 2003 and 2002:

| | 2003 | 2002 |
|---|---|---|
| Secured Credit Agreement: | | |
| Revolving Credit Facility: | | |
| Revolving Loans | $ — | $ 1,825.0 |
| Term Loans: | | |
| A Term Loan | 460.0 | |
| B Term Loan | 840.0 | |
| Senior Secured Notes: | | |
| 8.875%, due 2009 | 1,000.0 | 1,000.0 |
| 7.75%, due 2011 | 450.0 | |
| 8.75%, due 2012 | 625.0 | 625.0 |
| Senior Notes: | | |
| 7.85%, due 2004 | 36.5 | 300.0 |
| 7.15%, due 2005 | 350.0 | 350.0 |
| 8.10%, due 2007 | 301.3 | 300.0 |
| 7.35%, due 2008 | 248.8 | 250.0 |
| 8.25%, due 2013 | 450.0 | |
| Senior Debentures: | | |
| 7.50%, due 2010 | 248.3 | 250.0 |
| 7.80%, due 2018 | 250.0 | 250.0 |
| Other | 137.0 | 148.7 |
| | 5,396.9 | 5,298.7 |
| Less amounts due within one year | 63.8 | 30.7 |
| Long-term debt | $ 5,333.1 | $ 5,268.0 |

On June 13, 2003, the Company's subsidiary borrowers entered into an Amended and Restated Secured Credit Agreement (the "Agreement") which provides for up to $1.9 billion of credit. The Agreement consists of a $600 million revolving credit facility and a $460 million A term loan, each of which has a final maturity date of April 1, 2007, and an $840 million B term loan, which has a final maturity date of April 1, 2008. Proceeds from borrowings under the Agreement were used to repay all amounts outstanding under the Company's $1.9 billion previous credit agreement which had been scheduled to mature on March 31, 2004.

At December 31, 2003, the Company's subsidiary borrowers had unused credit of $438.1 million available under the Agreement.

The interest rate on borrowings under the Revolving Credit Facility is, at the borrower's option, the Base Rate or a reserve adjusted Eurodollar rate. The interest rate on borrowings under the Revolving Credit Facility also includes a margin linked to the Company's Consolidated Leverage Ratio, as defined in the Agreement. The margin is limited to ranges of 1.75% to 2.00% for Eurodollar loans and .75% to 1.00% for Base Rate loans. The interest rate on Overdraft Account loans is the Base Rate minus .50%. The weighted average interest rate on borrowings outstanding under the Agreement at December 31, 2003 was 3.94%. Including the effects of cross-currency swap agreements related to borrowings under the Agreement by the Company's Australian and Canadian subsidiaries, as discussed in Note 9, the weighted average interest rate was 6.78%. While no compensating balances are required by the Agreement, the Borrowers must pay a facility fee on the Revolving Credit Facility commitments of .50%.

Borrowings under the Agreement are secured by substantially all of the assets of the Company's domestic subsidiaries and certain foreign subsidiaries, which have a book value of approximately $3.7 billion. Borrowings are also secured by a pledge of intercompany debt and equity in most of the Company's domestic subsidiaries and certain stock of certain foreign subsidiaries. All borrowings under the agreement are guaranteed by substantially all domestic subsidiaries of the Company for the term of the Agreement.

Under the terms of the Agreement, payments for redemption of shares of the Company's common stock are subject to certain limitations. Dividend payments with respect to the Company's preferred or common stock may be impacted by certain covenants. The Agreement also requires, among other things, the maintenance of certain financial ratios, and restricts the creation of liens and certain types of business activities and investments.

During May 2003, a subsidiary of the Company issued Senior Secured Notes totaling $450 million and Senior Notes totaling $450 million. The notes bear interest at 7.75% and 8.25%, respectively, and are due May 15, 2011 and May 15, 2013, respectively. Both series of notes are guaranteed by substantially all of the Company's domestic subsidiaries. In addition, the assets of substantially all of the Company's domestic subsidiaries are pledged as security for the Senior Secured Notes. The indentures for the 7.75% Senior Secured Notes and the 8.25% Senior Notes have substantially the same restrictions as the 8.875% and 8.75% Senior Secured Notes. The issuing subsidiary used the net proceeds from the notes of approximately $880 million to purchase in a tender offer $263.5 million of the $300 million 7.85% Senior Notes due 2004 and to repay borrowings under the previous credit agreement. Concurrently, available credit under the previous credit agreement was reduced to approximately $1.9 billion. As part of the issuance of these notes and the related tender offer, the Company recorded in the second quarter of 2003 additional interest charges of $13.2 million for note repurchase premiums and the related write-off of unamortized finance fees and $3.6 million for the write-off of unamortized finance fees related to the reduction of available credit under the previous credit agreement.

Annual maturities for all of the Company's long-term debt through 2008 are as follows: 2004, $63.8 million; 2005, $410.0 million; 2006, $20.3 million; 2007, $776.4 million; and 2008, $1,094.4 million.

Interest paid in cash aggregated $458.8 million for 2003, $372.1 million for 2002, and $424.7 million for 2001.

Fair values at December 31, 2003, of the Company's significant fixed rate debt obligations are as follows:

| | Principal Amount (millions of dollars) | Indicated Market Price | Fair Value (millions of dollars) | Hedge Value (millions of dollars) |
|---|---|---|---|---|
| Senior Secured Notes: | | | | |
| 8.875%, due 2009 | $ 1,000.0 | $ 109.50 | $ 1,095.0 | |
| 7.75%, due 2011 | 450.0 | 106.25 | 478.1 | |
| 8.75%, due 2012 | 625.0 | 110.75 | 692.2 | |
| Senior Notes: | | | | |
| 7.85%, due 2004 | 36.5 | 100.00 | 36.5 | |
| 7.15%, due 2005 | 350.0 | 102.75 | 359.6 | |
| 8.10%, due 2007 | 300.0 | 104.75 | 314.2 | $ 301.3 |
| 7.35%, due 2008 | 250.0 | 102.25 | 255.6 | 248.8 |
| 8.25%, due 2013 | 450.0 | 106.25 | 478.1 | |
| Senior Debentures: | | | | |
| 7.50%, due 2010 | 250.0 | 101.75 | 254.4 | 248.3 |
| 7.80%, due 2018 | 250.0 | 100.50 | 251.3 | |

**7. Operating Leases** Rent expense attributable to all warehouse, office buildings and equipment operating leases was $85.0 million in 2003, $72.1 million in 2002, and $68.7 million in 2001. Minimum future rentals under operating leases are as follows: 2004, $72.7 million; 2005, $53.4 million; 2006, $41.1 million; 2007, $29.0 million; and 2008, $17.1 million; and 2009 and thereafter, $31.9 million.

**8. Foreign Currency Translation** Aggregate foreign currency exchange gains included in other costs and expenses were $2.2 million in 2003, $2.0 million in 2002, and $2.6 million in 2001.

**9. Derivative Instruments** The terms of the Amended and Restated Secured Credit Agreement require that borrowings under the Agreement be denominated in U.S. dollars. In order to manage the exposure to fluctuating foreign exchange rates created by U.S. dollar borrowings by the Company's international subsidiaries, certain subsidiaries have entered into currency swaps for the principal amount of their borrowings under the Agreement and for their interest payments due under the Agreement.

During the second quarter of 2003, the Company's subsidiary in Australia entered into a number of agreements that swap a total of U.S. $666 million of borrowings into 1,050 million Australian dollars. These derivative instruments swap both the interest and principal from U.S. dollars to Australian dollars and also swap the interest rate from a U.S.-based rate to an Australian-based rate. These agreements have various maturity dates ranging from April 2004 through May 2005.

The Company's subsidiaries in Australia, Canada, the United Kingdom and several other European countries have also entered into short term forward exchange contracts which effectively swap additional intercompany and external borrowings by each subsidiary into its local currency. These contracts swap both the interest and principal amount of borrowings in excess of amounts covered by the swap contracts described above.

The Company recognizes the above derivatives on the balance sheet at fair value, and the Company accounts for them as fair value hedges. Accordingly, the changes in the value of the swaps are recognized in current earnings and are expected to substantially offset any exchange rate gains or losses on the related U.S. dollar borrowings. For year ended December 31, 2003, the amount not offset was immaterial.

In the fourth quarter of 2003, the Company entered into a series of interest rate swap agreements with a total notional amount of $700 million that mature from 2007 through 2010. The swaps were executed in order to: (i) convert a portion of the senior notes and senior debentures fixed-rate debt into floating-rate debt; (ii) maintain a capital structure containing appropriate amounts of fixed and floating-rate debt; and (iii) reduce net interest payments and expense in the near-term.

The Company's fixed-to-variable interest rate swaps are accounted for as fair value hedges. Because the relevant terms of the swap agreements match the corresponding terms of the notes, there is no hedge ineffectiveness. Accordingly, as required by FAS No. 133 the Company recorded the fair market values of the swaps as a net other long-term liability along with a corresponding net decrease to the hedged debt.

Under the swaps the Company receives fixed rate interest amounts (equal to interest on the corresponding note hedged) and pays interest at a six month U.S. LIBOR rate (set in arrears) plus a margin spread (see table below). The interest rate differential on each swap is recognized as an adjustment of interest expense over the term of the agreement.

The following selected information relates to fair value swaps at December 31, 2003 (based on a projected U.S. LIBOR rate of 1.49%):

| | Amount Hedged | Average Receive Rate | Average Spread | Asset (Liability) Recorded |
|---|---|---|---|---|
| Senior Notes due 2007 | $ 200.0 | 8.10% | 4.3% | $ 1.3 |
| Senior Notes due 2008 | 250.0 | 7.35% | 3.5% | (1.2) |
| Senior Debentures due 2010 | 250.0 | 7.50% | 3.2% | (1.7) |
| Total | $ 700.0 | | | $ (1.6) |

The Company also uses commodity futures contracts related to forecasted natural gas requirements. The objective of these futures contracts is to limit the fluctuations in prices paid for natural gas and the potential volatility in earnings or cash flows from future market price movements. The Company continually evaluates the natural gas market with respect to its future usage requirements. The Company generally evaluates the natural gas market for the next twelve to eighteen months and continually enters into commodity futures contracts in order to hedge a portion of its usage requirements through the next twelve to eighteen months. At December 31, 2003, the Company had entered into commodity futures contracts for approximately 75% (approximately 18,000,000 MM BTUs) of its expected North American natural gas usage for the full year of 2004.

The Company accounts for the above futures contracts on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in accumulated other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. The ineffective portion of the change in the fair value of a derivative designated as a cash flow hedge is recognized in current earnings.

The above futures contracts are accounted for as cash flow hedges at December 31, 2003. Hedge accounting is only applied when the derivative is deemed to be highly effective at offsetting anticipated cash flows of the hedged transactions. For hedged forecasted transactions, hedge accounting will be discontinued if the forecasted transaction is no longer probable to occur, and any previously deferred gains or losses will be recorded to earnings immediately.

At December 31, 2003, an unrealized net gain of $1.0 million, after tax of $0.5 million, related to these commodity futures contracts was included in OCI. There was no ineffectiveness recognized during the years ended December 31, 2003 and 2002.

The Company's international affiliates may enter into short-term forward exchange agreements to purchase foreign currencies at set rates in the future. These foreign currency forward exchange agreements are used to limit exposure to fluctuations in foreign currency exchange rates for all significant planned purchases of fixed assets or commodities that are denominated in a currency other than the affiliate's functional currency. Affiliates may also use forward exchange agreements to offset the foreign currency risk for receivables and payables not denominated in their functional currency. The Company records these short-term forward exchange agreements on the balance sheet at fair value and changes in the fair value are recognized in current earnings.

**10. Accumulated Other Comprehensive Income (Loss)** The components of comprehensive income (loss) are: (a) net earnings (loss); (b) change in fair value of certain derivative instruments; (c) adjustment of minimum pension liabilities; and, (d) foreign currency translation adjustments. The net effect of exchange rate fluctuations generally reflects changes in the relative strength of the U.S. dollar against major foreign currencies between the beginning and end of the year.

The following table lists the beginning balance, yearly activity and ending balance of each component of accumulated other comprehensive income (loss):

| | Net Effect of Exchange Rate Fluctuations | Deferred Tax Effect for Translation of Equity Investment | Change in Minimum Pension Liability (net of tax) | Change in Certain Derivative Instruments (net of tax) | Total Accumulated Comprehensive Income (Loss) |
|---|---|---|---|---|---|
| Balance on January 1, 2001 | $ (530.8) | $ 24.4 | $ — | $ — | $ (506.4) |
| 2001 Change | (70.0) | 2.6 | | (2.5) | (69.9) |
| Balance on December 31, 2001 | (600.8) | 27.0 | | (2.5) | (576.3) |
| 2002 Change | 80.5 | (1.0) | (91.5) | 4.7 | (7.3) |
| Balance on December 31, 2002 | (520.3) | 26.0 | (91.5) | 2.2 | (583.6) |
| 2003 Change | 365.6 | (4.6) | (19.3) | (1.2) | 340.5 |
| Balance on December 31, 2003 | $ (154.7) | $ 21.4 | $ (110.8) | $ 1.0 | $ (243.1) |

The change in minimum pension liability for 2002 and 2003 was net of tax of $39.2 million and $1.4 million, respectively. The change in minimum pension liability for 2003 included $10.1 million ($14.7 million pretax) of translation effect on the minimum pension liability recorded in 2002.

The change in certain derivative instruments for 2001, 2002 and 2003 was net of tax of $1.3 million, $2.5 million, and $0.7 million, respectively.

**11. Income Taxes** Deferred income taxes reflect: (1) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (2) carryovers and credits for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2003 and 2002 are as follows:

| | 2003 | 2002 |
|---|---|---|
| Deferred tax assets: | | |
| Accrued postretirement benefits | $ 99.6 | $ 88.2 |
| Asbestos-related liabilities | 281.3 | 193.4 |
| Tax loss carryovers | 341.9 | 156.9 |
| Alternative minimum tax credits | 22.7 | 23.6 |
| Other, principally accrued liabilities | 211.0 | 149.1 |
| Total deferred tax assets | 956.5 | 611.2 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | 342.9 | 334.1 |
| Prepaid pension costs | 291.4 | 299.9 |
| Insurance for asbestos-related costs | 2.0 | 4.3 |
| Inventory | 30.5 | 30.1 |
| Other | 118.3 | 107.9 |
| Total deferred tax liabilities | 785.1 | 776.3 |
| Valuation allowance | (137.4) | |
| Net deferred tax assets (liabilities) | $ 34.0 | $ (165.1) |

Deferred taxes are included in the Consolidated Balance Sheets at December 31, 2003 and 2002 as follows:

| | 2003 | 2002 |
|---|---|---|
| Prepaid expenses | $ 112.3 | $ 113.3 |
| Deposits, receivables, and other assets | 41.3 | |
| Deferred tax liability | (119.6) | (278.4) |
| Net deferred tax assets (liabilities) | $ 34.0 | $ (165.1) |

The provision (benefit) for income taxes consists of the following (certain amounts from prior years have been reclassified to conform to current year presentation):

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Current: | | | |
| U.S. Federal | $ — | $ — | $ 8.0 |
| State | 1.6 | 1.4 | 19.4 |
| Foreign | 55.3 | 74.9 | 31.7 |
| | 56.9 | 76.3 | 59.1 |
| Deferred: | | | |
| U.S. Federal | (174.7) | (98.2) | 189.7 |
| State | (6.1) | 8.7 | 1.2 |
| Foreign | (1.8) | (10.9) | 33.9 |
| | (182.6) | (100.4) | 224.8 |
| Total: | | | |
| U.S. Federal | (174.7) | (98.2) | 197.7 |
| State | (4.5) | 10.1 | 20.6 |
| Foreign | 53.5 | 64.0 | 65.6 |
| | $ (125.7) | $ (24.1) | $ 283.9 |
| Total for continuing operations | $ (133.7) | $ (49.8) | $ 266.4 |
| Total for discontinued operations | 8.0 | 25.7 | 17.5 |
| | $ (125.7) | $ (24.1) | $ 283.9 |

The provision for income taxes was calculated based on the following components of earnings (loss) before income taxes (certain amounts from prior years have been reclassified to conform to current year presentation):

| Continuing operations | 2003 | 2002 | 2001 |
|---|---|---|---|
| Domestic | $ (617.4) | $ (338.2) | $ 531.4 |
| Foreign | 179.4 | 275.7 | 119.5 |
| | $ (438.0) | $ (62.5) | $ 650.9 |

| Discontinued operations | 2003 | 2002 | 2001 |
|---|---|---|---|
| Domestic | $ (670.4) | $ 49.4 | $ (21.2) |
| Foreign | 17.7 | 14.3 | 30.9 |
| | $ (652.7) | $ 63.7 | $ 9.7 |

Income taxes paid (received) in cash were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Domestic | $ 1.4 | $ (9.0) | $ 8.1 |
| Foreign | 51.1 | 51.2 | 52.1 |
| | $ 52.5 | $ 42.2 | $ 60.2 |

A reconciliation of the provision (benefit) for income taxes based on the statutory U.S. Federal tax rate of 35% to the provision for income taxes is as follows (certain amounts from prior years have been reclassified to conform to current year presentation):

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Pretax earnings from continuing operations at statutory U.S. Federal tax rate | $ (153.3) | $ (21.8) | $ 227.8 |
| Increase (decrease) in provision for income taxes due to: | | | |
| Amortization of goodwill | | | 18.7 |
| Write-down of equity investment | 17.5 | | |
| State taxes, net of federal benefit | (3.1) | 3.2 | 11.8 |
| International rate differences | (14.6) | (24.0) | (3.0) |
| Ardagh note | 11.1 | | |
| Adjustment for non-U.S. tax law changes | (9.1) | (5.7) | 5.8 |
| Other items | 17.8 | (1.5) | 5.3 |
| Provision (credit) for income taxes | $ (133.7) | $ (49.8) | $ 266.4 |
| Effective tax rate | -30.5% | -79.7% | 40.9% |

At December 31, 2003, the Company had unused net operating losses and research tax credits expiring from 2007 to 2024.

The Company also has unused alternative minimum tax credits which do not expire and which will be available to offset future U.S. Federal income tax.

At December 31, 2003, the Company's equity in the undistributed earnings of foreign subsidiaries for which income taxes had not been provided approximated $642.3 million. It is not practicable to estimate the U.S. and foreign tax which would be payable should these earnings be distributed.

In 2003, the Company entered into an agreement with the trustee of an insolvent Canadian entity. At the conclusion of its insolvency proceedings, the entity was merged with the Company's Canadian operating subsidiary, thereby establishing a loss that can be carried forward and applied against future taxable earnings of the Company's Canadian manufacturing operations. Based on its historical and projected taxable earnings in Canada, the Company provided a valuation allowance for the net deferred tax assets in Canada, including the tax loss carryforwards. The Company presently intends to reverse a portion of the valuation allowance each year related to loss carryforwards that are utilized during the year.

**12. Convertible Preferred Stock** Annual cumulative dividends of $2.375 per share are payable in cash quarterly. The convertible preferred stock is convertible at the option of the holder at any time, unless previously redeemed, into shares of common stock of the Company at an initial conversion rate of 0.9491 shares of common stock for each share of convertible preferred stock, subject to adjustment based on certain events. The convertible preferred stock may be redeemed only in shares of common stock of the Company at the option of the Company at predetermined redemption prices plus accrued and unpaid dividends, if any, to the redemption date.

Holders of the convertible preferred stock have no voting rights, except as required by applicable law and except that among other things, whenever accrued and unpaid dividends on the convertible preferred stock are equal to or exceed the equivalent of six quarterly dividends payable on the convertible preferred stock such holders will be entitled to elect two directors to the Company's board of directors until the dividend arrearage has been paid or amounts have been set apart for such payment. In addition, certain changes that would be materially adverse to the rights of holders of the convertible preferred stock cannot be made without the vote of holders of two-thirds of the outstanding convertible preferred stock. The convertible preferred stock is senior to the common stock with respect to dividends and liquidation events.

**13. Stock Options** The Company has three nonqualified stock option plans: (1) the Stock Option Plan for Key Employees of Owens-Illinois, Inc.; (2) the Stock Option Plan for Directors of Owens-Illinois, Inc. and (3) 1997 Equity Participation Plan of Owens-Illinois, Inc. No options may be exercised in whole or in part during the first year after the date granted. In general, subject to accelerated exercisability provisions related to the performance of the Company's common stock or change of control, 50% of the options become exercisable on the fifth anniversary of the date of the option grant, with the remaining 50% becoming exercisable on the sixth anniversary date of the option grant. In general, options expire following termination of employment or the day after the tenth anniversary date of the option grant. All options have been granted at prices equal to the market price of the Company's common stock on the date granted. Accordingly, the Company recognizes no compensation expense related to the stock option plans.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions described in the accounting policies note on stock options.

Stock option activity is as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Fair Value |
|---|---|---|---|
| Options outstanding at January 1, 2001 | 7,870,439 | $ 23.76 | |
| Granted | 1,728,800 | 5.69 | $ 3.50 |
| Canceled | (178,950) | 20.29 | |
| Options outstanding at December 31, 2001 | 9,420,289 | 20.51 | |
| Granted | 1,116,311 | 10.44 | $ 6.49 |
| Exercised | (605,480) | 7.54 | |
| Canceled | (83,265) | 22.04 | |
| Options outstanding at December 31, 2002 | 9,847,855 | 20.15 | |
| Granted | 930,800 | 9.98 | $ 6.15 |
| Exercised | (182,955) | 6.85 | |
| Canceled | (198,284) | 20.66 | |
| Options outstanding at December 31, 2003 | 10,397,416 | $ 19.46 | |
| Options exercisable at: | | | |
| December 31, 2003 | 5,030,410 | $ 19.51 | |
| December 31, 2002 | 3,691,381 | $ 13.39 | |
| December 31, 2001 | 1,848,826 | $ 15.96 | |
| Shares available for option grant at: | | | |
| December 31, 2003 | 5,083,627 | | |
| December 31, 2002 | 6,164,635 | | |
| December 31, 2001 | 1,544,841 | | |

The following table summarizes significant option groups outstanding at December 31, 2003, and related weighted average price and life information:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Options Outstanding | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price | Options Exercisable | Weighted Average Exercise Price |
| $ 5.69 to $16.98 | 6,131,989 | 6.1 | $ 10.91 | 3,166,118 | $ 10.30 |
| $23.94 to $31.63 | 2,647,060 | 4.6 | $ 26.94 | 1,035,700 | $ 31.61 |
| $34.88 to $41.50 | 1,618,367 | 4.4 | $ 39.65 | 828,592 | $ 39.60 |
| | 10,397,416 | | | 5,030,410 | |

**14. Pension Benefit Plans** Net credits to results of operations for all of the Company's pension plans and certain deferred compensation arrangements amounted to $17.8 million in 2003, $72.5 million in 2002, and $83.4 million in 2001.

The Company has defined benefit pension plans covering substantially all employees located in the United States, the United Kingdom, Australia, and Canada. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. The Company's policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. The following tables relate to the Company's principal defined benefit pension plans in the United States, the United Kingdom, Australia, and Canada.

The Company's defined benefit pension plans in the United States, the United Kingdom, Australia, and Canada use a December 31 measurement date.

The changes in the pension benefit obligations for the year were as follows (certain amounts from prior year have been reclassified to conform to current year presentation):

| | 2003 | 2002 |
|---|---|---|
| Obligations at beginning of year | $ 2,752.4 | $ 2,520.6 |
| Change in benefit obligations: | | |
| Service cost | 48.8 | 38.8 |
| Interest cost | 179.1 | 172.4 |
| Actuarial loss, including effect of changing discount rates | 211.4 | 165.3 |
| Participant contributions | 5.1 | 3.6 |
| Benefit payments | (219.4) | (197.7) |
| Plan amendments | 0.7 | 7.1 |
| Foreign currency translation | 110.6 | 41.5 |
| Other | 1.3 | 0.8 |
| Net increase in benefit obligations | 337.6 | 231.8 |
| Obligations at end of year | $ 3,090.0 | $ 2,752.4 |

The changes in the fair value of the pension plans' assets for the year were as follows:

| | 2003 | 2002 |
|---|---|---|
| Fair value at beginning of year | $ 2,483.9 | $ 2,744.0 |
| Change in fair value: | | |
| Actual gain (loss) on plan assets | 483.2 | (113.7) |
| Benefit payments | (219.4) | (197.7) |
| Employer contributions | 35.1 | 14.7 |
| Participant contributions | 5.1 | 3.6 |
| Foreign currency translation | 82.0 | 33.2 |
| Other | | (0.2) |
| Net increase (decrease) in fair value of assets | 386.0 | (260.1) |
| Fair value at end of year | $ 2,869.9 | $ 2,483.9 |

The funded status of the pension plans at year end was as follows:

| | 2003 | 2002 |
|---|---|---|
| Plan assets at fair value | $ 2,869.9 | $ 2,483.9 |
| Projected benefit obligations | 3,090.0 | 2,752.4 |
| Plan assets less than projected benefit obligations | (220.1) | (268.5) |
| Net unrecognized items: | | |
| Actuarial loss | 1,157.7 | 1,143.7 |
| Prior service cost | 45.2 | 50.0 |
| | 1,202.9 | 1,193.7 |
| Net amount recognized | $ 982.8 | $ 925.2 |

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2003 and 2002 as follows:

| | 2003 | 2002 |
|---|---|---|
| Prepaid pension | $ 967.1 | $ 925.5 |
| Accrued pension, included with other liabilities | (45.4) | (50.9) |
| Minimum pension liability, included with other liabilities | (107.3) | (92.2) |
| Intangible asset, included with deposits and other assets | 12.4 | 12.1 |
| Accumulated other comprehensive income | 156.0 | 130.7 |
| Net amount recognized | $ 982.8 | $ 925.2 |

The accumulated benefit obligation for all defined benefit pension plans was $2,823.8 million and $2,530.1 million at December 31, 2003 and 2002, respectively.

The components of the net pension credit for the year were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Service cost | $ 48.8 | $ 38.8 | $ 36.6 |
| Interest cost | 179.1 | 172.4 | 169.3 |
| Expected asset return | (275.1) | (303.4) | (311.0) |
| Amortization: | | | |
| Prior service cost | 6.8 | 7.6 | 7.6 |
| Loss | 10.5 | 1.1 | 0.5 |
| Net amortization | 17.3 | 8.7 | 8.1 |
| Net credit | $ (29.9) | $ (83.5) | $ (97.0) |
| Total for continuing operations | $ (29.9) | $ (79.0) | $ (90.8) |
| Total for discontinued operations | — | (4.5) | (6.2) |
| | $ (29.9) | $ (83.5) | $ (97.0) |

The following information is for plans with accumulated benefit obligations in excess of the fair value of plan assets at year end:

| | 2003 | 2002 |
|---|---|---|
| Accumulated benefit obligations | $ 632.3 | $ 513.5 |
| Fair value of plan assets | 479.9 | 372.4 |

The weighted average assumptions used to determine benefit obligations were as follows:

| | 2003 | 2002 |
|---|---|---|
| Discount rate | 6.10% | 6.52% |
| Rate of compensation increase | 4.71% | 4.72% |

The weighted average assumptions used to determine net periodic pension costs were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Discount rate | 6.52% | 6.95% | 7.14% |
| Rate of compensation increase | 4.72% | 4.78% | 4.82% |
| Expected long-term rate of return on assets | 8.71% | 9.64% | 10.12% |

Future benefits are assumed to increase in a manner consistent with past experience of the plans, which, to the extent benefits are based on compensation, includes assumed salary increases as presented above. Amortization included in net pension credits is based on the average remaining service of employees.

As of December 31, 2002, the Company recognized a minimum pension liability for the pension plan in the United Kingdom that was equal to the difference between the accumulated benefit obligation over plan assets. In addition to eliminating the prepaid pension asset, additional amounts were recognized as an intangible asset and a reduction of equity. Pursuant to this requirement, the Company recorded a minimum pension liability of $92.2 million, an intangible asset of $12.1 million, and accumulated other comprehensive loss of $130.7 million. As of December 31, 2003, the Company updated the minimum pension liability from the December 31, 2002 amounts. Pursuant to this requirement, the Company reduced the minimum pension liability by $1.2 million, reduced the intangible asset by $1.5 million, and increased accumulated other comprehensive income by $4.8 million.

As of December 31, 2003 and 2002, the Company recognized an additional minimum pension liability for the pension plan in Canada that was equal to the difference between the accumulated benefit obligation over plan assets in excess of accrued pension cost. In addition to recording the additional minimum liability, additional amounts were recognized as an intangible asset and a reduction of equity. Pursuant to this requirement, the Company recorded, as of December 31, 2003, an additional minimum pension liability of $6.2 million, an intangible asset of $0.3 million, and accumulated other comprehensive loss of $5.8 million.

For 2003, the Company's weighted average expected long-term rate of return on assets was 8.71%. In developing this assumption, the Company evaluated input from its third party pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered its historical 10-year average return (through December 31, 2002), which was in line with the expected long-term rate of return assumption for 2003.

The weighted average actual asset allocations and weighted average target allocation ranges by asset category for the Company's pension plan assets were as follows:

| | Actual Allocation | | |
|---|---|---|---|
| **Asset Category** | **2003** | **2002** | **Target Allocation Ranges** |
| Equity securites | 68% | 61% | 58 - 68% |
| Debt securities | 24% | 30% | 23-33% |
| Real estate | 7% | 8% | 2-12% |
| Other | 1% | 1% | 0-2% |
| Total | 100% | 100% | |

It is the Company's policy to invest pension plan assets in a diversified portfolio consisting of an array of asset classes within the above target asset allocation ranges. The investment risk of the assets is limited by appropriate diversification both within and between asset classes. The assets for both the U.S. and non-U.S. plans are primarily invested in a broad mix of domestic and international equities, domestic and international bonds, and real estate, subject to the target asset allocation ranges. The assets are managed with a view to ensuring that sufficient liquidity will be available to meet expected cash flow requirements.

Plan assets at December 31, 2003 and 2002 included 14,423,621 shares of the Company's common stock, which amounted to $171.5 million or 6.0% of total plan assets as of December 31, 2003 and $210.3 million or 8.5% of total plan assets as of December 31, 2002.

The Company expects to contribute $33.9 million to its defined benefit pension plans in 2004.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

| Year(s) | Amount |
|---|---|
| 2004 | $ 206.4 |
| 2005 | 199.9 |
| 2006 | 203.2 |
| 2007 | 206.6 |
| 2008 | 213.1 |
| 2009-2013 | 1,167.2 |

The Company also sponsors several defined contribution plans for all salaried and hourly U.S. employees. Participation is voluntary and participants' contributions are based on their compensation. The Company matches contributions of participants, up to various limits, in substantially all plans. Company contributions to these plans amounted to $8.6 million in 2003, $9.3 million in 2002, and $9.2 million in 2001.

15. **Postretirement Benefits Other Than Pensions** The Company provides certain retiree health care and life insurance benefits covering substantially all U.S. salaried and certain hourly employees and substantially all employees in Canada. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service.

The changes in the postretirement benefit obligations for the year were as follows:

| | 2003 | 2002 |
|---|---|---|
| Obligations at beginning of year | $ 352.3 | $ 321.2 |
| Change in benefit obligations: | | |
| Service cost | 3.6 | 2.7 |
| Interest cost | 23.3 | 22.6 |
| Actuarial loss, including the effect of changing discount rates | 25.1 | 31.9 |
| Benefit payments | (32.7) | (32.2) |
| Foreign currency translation | 9.4 | 0.2 |
| Other | (0.2) | 5.9 |
| Net change in benefit obligations | 28.5 | 31.1 |
| Obligations at end of year | $ 380.8 | $ 352.3 |

The funded status of the postretirement benefit plans at year end was as follows:

| | 2003 | 2002 |
|---|---|---|
| Projected postretirement benefit obligations | $ 380.8 | $ 352.3 |
| Net unrecognized items: | | |
| Prior service credit | 4.7 | 17.6 |
| Actuarial loss | (100.7) | (78.4) |
| | (96.0) | (60.8) |
| Nonpension accumulated postretirement benefit obligations | $ 284.8 | $ 291.5 |

The components of the net postretirement benefit cost for the year were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Service cost | $ 3.6 | $ 2.7 | $ 1.8 |
| Interest cost | 23.3 | 22.6 | 20.5 |
| Amortization: | | | |
| Prior service credit | (13.0) | (13.0) | (13.0) |
| Loss | 3.7 | 2.3 | 0.8 |
| Net amortization | (9.3) | (10.7) | (12.2) |
| Net postretirement benefit cost | $ 17.6 | $ 14.6 | $ 10.1 |
| Total for continuing operations | $ 17.3 | $ 13.5 | $ 9.0 |
| Total for discontinued operations | 0.3 | 1.1 | 1.1 |
| | $ 17.6 | $ 14.6 | $ 10.1 |

The weighted average discount rate used to determine the accumulated postretirement benefit obligation was 6.21% and 6.72% at December 31, 2003 and 2002, respectively.

The weighted average discount rate used to determine net postretirement benefit cost was 6.72%, 7.18%, and 7.50% at December 31, 2003, 2002, and 2001, respectively.

The weighted average assumed health care cost trend rates at December 31 were as follows:

| | 2003 | 2002 |
|---|---|---|
| Health care cost trend rate assumed for next year | 10.56% | 11.60% |
| Rate to which the cost trend rate is assumed to decline (ultimate trend rate) | 5.93% | 5.94% |
| Year that the rate reaches the ultimate trend rate | 2009 | 2009 |

Assumed health care cost trend rates affect the amounts reported for the postretirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| | 1-Percentage-Point Increase | 1-Percentage-Point Decrease |
|---|---|---|
| Effect on total of service and interest cost | $ 2.1 | $ (1.7) |
| Effect on accumulated postretirement benefit obligations | 20.0 | (17.0) |

Amortization included in net postretirement benefit cost is based on the average remaining service of employees. The unamortized prior service credit of $4.7 million as of December 31, 2003, will be fully amortized during 2004.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

| Year(s) | Amount |
|---|---|
| 2004 | $ 30.6 |
| 2005 | 30.5 |
| 2006 | 30.3 |
| 2007 | 30.1 |
| 2008 | 29.6 |
| 2009-2013 | 141.3 |

Benefits provided by the Company for certain hourly retirees are determined by collective bargaining. Most other domestic hourly retirees receive health and life insurance benefits from a multi-employer trust established by collective bargaining. Payments to the trust as required by the bargaining agreements are based upon specified amounts per hour worked and were $8.7 million in 2003, $8.9 million in 2002, and $9.2 million in 2001. Postretirement health and life benefits for retirees of foreign subsidiaries are generally provided through the national health care programs of the countries in which the subsidiaries are located.

During January 2004, the FASB issued FASB Staff Position ("FSP") 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act")", which permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act. The guidance in this FSP is effective for interim or annual financial statements of fiscal years ending after December 7, 2003. The election to defer accounting for the Act is a one-time election that must be made before net periodic postretirement benefit costs for the period that includes the Act's enactment date are first included in reported financial information pursuant to the requirements of FAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions". In accordance with FSP 106-1, the Company has elected to defer accounting for the effects of the Act and, accordingly, the measures of the accumulated postretirement benefit obligation and the net postretirement benefit cost shown above do not reflect the effects of the Act on the postretirement benefits. The Company has not determined the impact of the Act on these benefits.

16. **Other Revenue** Other revenue in 2001 includes a gain of $457.3 million related to the sale of the Harbor Capital Advisors business and gains totaling $13.1 million related to the sale of the Company's label business and the sale of a minerals business in Australia.

17. **Other Costs and Expenses** Other costs and expenses for the year ended December 31, 2003 included pretax charges of $694.2 million ($490.5 after tax) related to the following:

- On July 11, 2003, the Company received payments totaling 100 million British pounds sterling (US$163.0 million) in connection with the sale to Ardagh Glass Limited of certain long-term notes receivable. The notes were received from Ardagh in 1999 by the Company's wholly-owned subsidiary, United Glass Limited, in connection with its sale of Rockware, a United Kingdom glass container manufacturer obtained in the 1998 acquisition of the worldwide glass and plastics packaging businesses of BTR plc. The notes were due in 2006 and interest had previously been paid in kind through periodic increases in outstanding principal balances. The proceeds from the sale of the notes were used to reduce outstanding borrowings under the Agreement. The notes were sold at a discount of approximately 22.6 million British pounds sterling which resulted in a loss of US$37.4 million (US$37.4 million after tax).

- During the fourth quarter of 2003, the Company completed the sale of its assets related to the production of plastic trigger sprayers and finger pumps. Included in the sale were manufacturing facilities in Bridgeport, Connecticut and El Paso, Texas, in addition to related production assets at the Erie, Pennsylvania plant. As a result of the sale, the Company recorded a loss of $41.3 million ($25.8 million after tax) in the third and fourth quarters of 2003. The net cash proceeds from the sale of approximately $44 million, including liquidation of related working capital, were used to reduce debt.

The Company's decision to sell the long-term notes receivable and its assets related to the production of plastic trigger sprayers and finger pumps is consistent with its objectives to improve liquidity and to focus on its core businesses.

- In August of 2003, the Company initiated a review of its Plastics Packaging assets in the Asia Pacific region. The review was completed during the fourth quarter of 2003. The Company used

a combination of estimated divestment cash flows, which included bid prices from potential purchasers, and partial liquidation values for certain assets to determine the net realizable values of the assets. The Company compared the estimated net realizable values to the book values of the asset and determined that an asset impairment existed. As a result, the Company recorded a charge of $43.0 million ($30.1 million after tax) to write-down the assets to realizable values. Certain of the plastics businesses in the Asia Pacific region operate in highly competitive markets leading to reduced profit margins. In addition, the Company's PET container business has lost a significant amount of business in the past few years. The reduced business and overall excess capacity in the industry has caused a reduction in the overall value of the business. The Company has entered into an agreement to sell a significant portion of its Asia Pacific plastic business for approximately $60 million (excluding PET container operations). The sale of this business is subject to certain regulatory and other approvals.

- During the fourth quarter of 2003, the Company determined that the value of its 25% investment in a North American soda ash mining operation was impaired and not likely to recover. Increasing global competition and recent development of foreign sources of soda ash have created significant excess capacity in that industry. The resulting competitive environment caused management of the soda ash mining operation to significantly lower its projections of earnings and cash flows. Following an evaluation of future estimated earnings and cash flows, the Company determined that its carrying value should be written down to estimated fair value and recorded a $50 million charge in the fourth quarter which substantially reduced the carrying value of this equity method investment.

- During the fourth quarter of 2003, the Company completed its annual review of asbestos-related liabilities and as a result recorded a charge of $450.0 million ($292.5 million after tax) to increase the reserve for future asbestos-related liabilities.

- In August 2003, the Company announced the permanent closing of its Hayward, California glass container factory. Production at the factory was suspended in June following a major leak in its only glass furnace. As a result, the Company recorded a capacity curtailment charge of $28.5 million ($17.8 million after tax) in the third quarter of 2003.

The closing of this factory resulted in the elimination of approximately 170 jobs and a corresponding reduction in the Company's workforce. The Company expects to save approximately $12 million per year by closing this factory and moving the production to other locations. The Company anticipates that it will pay out approximately $15 million in cash related to severance, benefits, lease commitments, plant clean-up, and other plant closing costs. The Company expects that a substantial portion of these costs will be paid out by the end of 2005.

- In November 2003, the Company announced the permanent closing of its Milton, Ontario glass container factory. The closing of this factory is part of the Company's previously announced capacity utilization review. This closing is part of an effort to bring capacity and inventory levels in line with anticipated demand. As a result, the Company recorded a capacity curtailment charge of $20.1 million ($19.5 million after tax) in the fourth quarter of 2003.

The closing of this factory in November 2003 resulted in the elimination of approximately 150 jobs and a corresponding reduction in the Company's workforce. The Company eventually expects to save approximately $8.5 million per year by closing this factory and moving the production to other locations. The Company anticipates that it will pay out approximately $8.0 million in cash related to severance, benefits, plant clean-up, and other plant closing costs. The Company expects that the majority of these costs will be paid out by the end of 2005.

- In December 2003, the Company announced the permanent closing of its Perth, Australia glass container factory. The closing of this factory is part of the Company's previously announced

capacity utilization review. This closing is part of an effort to reduce overall capacity in Australia and bring inventory levels in line with anticipated demand. The Perth plant's western location and small size contributed to the plant being a higher cost facility that was no longer economically feasible to operate. As a result, the Company recorded a capacity curtailment charge of $23.9 million ($17.4 million after tax) in other costs and expenses in the results of operations for 2003.

The closing of this factory in December 2003 resulted in the elimination of approximately 107 jobs and a corresponding reduction in the Company's workforce. The Company expects to save approximately $9 million per year by closing this factory and eventually moving the production to other locations. The Company anticipates that it will pay out approximately $10 million in cash related to severance, benefits, plant clean-up, and other plant closing costs. The Company expects that the majority of these costs will be paid out by third quarter of 2004.

Selected information related to the above glass container factory closings is as follows:

| | Hayward | Milton | Perth | Total |
|---|---|---|---|---|
| Plant closing charges | $ 28.5 | $ 20.1 | $ 23.9 | $ 72.5 |
| Write-down of assets to net realizable value | (12.2) | (6.4) | (14.0) | (32.6) |
| Net cash paid | (4.1) | (1.7) | (4.5) | (10.3) |
| Remaining accruals related to plant closing charges as of December 31, 2003 | $ 12.2 | $ 12.0 | $ 5.4 | $ 29.6 |

Other costs and expenses for the year ended December 31, 2002 included a charge of $475.0 million related to the increase of the reserve for estimated future asbestos-related indemnity payments and legal fees.

Other costs and expenses for the year ended December 31, 2001 included pretax charges of $105.0 million related to the following:

- Impairment charges of $25.2 million to write down the majority of the long-lived assets at the Company's glass container facility in Puerto Rico. While the Company intends to continue to operate this facility, an analysis of cash flows indicated that the long-lived assets, including buildings, furnaces and factory equipment, were impaired.

- Impairment charges of $16.5 million to substantially write off buildings, furnaces and factory equipment related to the permanent closing of a glass container facility in Venezuela.

- Impairment charges of $19.0 million at various other international and domestic facilities in response to decisions about pricing and market strategy. These charges related to the permanent closing of the flat glass facility in Venezuela and the abandonment of certain equipment at various locations.

- Other costs of $5.4 million related to closing facilities and reducing workforce. The total workforce reductions involved approximately 220 employees at a cost of approximately $4.0 million, substantially all of which had been paid out at December 31, 2002.

- A charge of $31.0 million related to the loss on the sale of the Company's facilities in India.

- A charge of $7.9 million related to restructuring manufacturing capacity in the medical devices business.

Actions related to the 2001 restructuring and impairment charges were substantially completed during 2002.

Selected information relating to the restructuring accruals that resulted from the 2001 and 2000 restructuring programs follow:

| | Capacity realignment | Write-down of impaired property, plant and equipment | Total |
|---|---|---|---|
| Restructuring accruals at January 1, 2001 | $ 57.7 | $ — | $ 57.7 |
| Restructuring program and impairment—continuing operations | 24.4 | 41.7 | 66.1 |
| Restructuring program and impairment—discontinued operations | 21.2 | | 21.2 |
| Reversal of second quarter 2001 restructuring charge—discontinued operations | (5.2) | | (5.2) |
| Medical devices restructuring—continuing operations | 7.9 | | 7.9 |
| Write-down of assets to net realizable value | (43.8) | (41.7) | (85.5) |
| Net cash paid | (24.7) | | (24.7) |
| Remaining accruals at December 31, 2001 | 37.5 | — | 37.5 |
| Write-down of assets to net realizable value | (16.6) | | (16.6) |
| Net cash paid | (10.0) | | (10.0) |
| Reversal of previous restructuring charges — continuing operations | (5.1) | | (5.1) |
| Remaining accruals at December 31, 2002 | $ 5.8 | $ — | $ 5.8 |

Capacity realignment included charges for plant closing costs, severance benefits, and write-downs of assets for disposal or abandonment as a result of restructuring of manufacturing capacity. Write-downs of assets represented the majority of the charges for 2001.

At the end of 2002, the 2001 and 2000 restructuring programs were substantially completed and the remaining accruals were no longer deemed to be material; therefore the activity in these restructuring accruals has not been presented for 2003.

**18. Additional Interest Charges from Early Extinguishment of Debt** During 2003, the Company recorded additional interest charges of $13.2 million ($8.2 million after tax) for note repurchase premiums and related write-off of unamortized finance fees and $3.6 million ($2.5 million after tax) for the write-off of unamortized finance fees related to the reduction of available credit under the Company's previous bank credit agreement. During 2002, the Company wrote off unamortized deferred financing fees related to indebtedness repaid prior to its scheduled maturity. As a result, the Company recorded additional interest charges totaling $15.4 million ($9.6 million after tax). During 2001, the Company wrote off unamortized deferred financing fees related to indebtedness repaid prior to its scheduled maturity. As a result, the Company recorded additional interest charges totaling $6.6 ($4.1 million after tax). These 2002 and 2001 charges had been previously reported as extraordinary charges, net of income taxes, and were reclassified, as detailed above, to interest expense and provision for income taxes in accordance with FAS No. 145. Amounts above included the following for discontinued operations: 2003—$2.3 million ($1.6 million after tax), 2002—$6.3 million ($3.9 million after tax), 2001—$1.9 million ($1.2 million after tax).

**19. Contingencies** The Company is one of a number of defendants in a substantial number of lawsuits filed in numerous state and federal courts by persons alleging bodily injury (including death) as a result of exposure to dust from asbestos fibers. From 1948 to 1958, one of the Company's former business units commercially produced and sold approximately $40 million of a high-temperature, calcium-silicate based pipe and block insulation material containing asbestos. The Company exited the pipe and block insulation business in April 1958. The traditional asbestos personal injury lawsuits and claims relating to such production and sale of asbestos material typically allege various theories of

liability, including negligence, gross negligence and strict liability and seek compensatory and in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

The following table shows the approximate number of plaintiffs and claimants involved in asbestos claims pending at the beginning of, disposed of and filed during, and pending at the end of, each of the years listed (eliminating duplicate filings):

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Pending at beginning of year | 24,000 | 27,000 | 20,000 |
| Disposed | 21,000 | 24,000 | 24,000 |
| Filed | 26,000 | 21,000 | 31,000 |
| Pending at end of year | 29,000 | 24,000 | 27,000 |

Approximately 92% of the plaintiffs and claimants either do not specify the monetary damages sought or, in the case of court filings, claim an amount sufficient to invoke the jurisdiction of the trial court. Fewer than 4% of the plaintiffs specify the maximum of their damages claim to be between $10 million and $33 million, while approximately 4% of the plaintiffs claim specific damage amounts ranging between $6 million to $122 million. A single suit pending since 1991 involving fewer than 0.1% of the plaintiffs and approximately 60 defendants, claims damages of $11 billion.

As indicated by the foregoing summary, modern pleading practice permits considerable variation in the assertion of monetary damages. This variability, together with the actual experience discussed further below of litigating or resolving through settlement hundreds of thousands of asbestos claims and lawsuits over an extended period, demonstrates that the monetary relief which may be specified in a lawsuit or claim bears little relevance to its merits or disposition value. Rather, the amount potentially recoverable for a specific claimant is determined by other factors such as the claimant's severity of disease, product identification evidence against specific defendants, the defenses available to those defendants, the specific jurisdiction in which the claim is made, the claimant's history of smoking or exposure to other possible disease-causative factors, and the various other matters discussed further below.

In addition to the pending claims set forth above, the Company has claims-handling agreements in place with many plaintiffs' counsel throughout the country. These agreements require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by such agreements. The criteria for such claims include verification of a compensable illness and a reasonable probability of exposure to a product manufactured by the Company's former business unit during its manufacturing period ending in 1958. Some plaintiffs' counsel have historically withheld claims under these agreements for later presentation while focusing their attention on active litigation in the tort system. The Company believes that as of December 31, 2003 there are no more than 21,000 of such preexisting but presently unasserted claims against the Company that are not included in the total of pending claims set forth above. The Company further believes that the bankruptcies of additional co-defendants, as discussed below, resulted in an acceleration of the presentation and disposition of a number of these previously withheld preexisting claims under such agreements, which claims would otherwise have been presented and disposed of over the next several years. This acceleration is reflected in an increased number of pending asbestos claims and, to the extent disposed, contributed to additional asbestos-related payments.

The Company is also a defendant in other asbestos-related lawsuits or claims involving maritime workers, medical monitoring claimants, co-defendants and property damage claimants. Based upon its past experience, the Company believes that these categories of lawsuits and claims will not involve any material liability and they are not included in the above description of pending matters or in the following description of disposed matters.

Since receiving its first asbestos claim, the Company, as of December 31, 2003, has disposed of the asbestos claims of approximately 306,000 plaintiffs and claimants at an average indemnity payment per claim of approximately $5,900. Certain of these dispositions have included deferred amounts payable over periods ranging up to seven years. Deferred amounts payable totaled approximately $87 million at December 31, 2003 ($50 million at December 31, 2002) and are included in the foregoing average indemnity payment per claim. The Company's indemnity payments for these claims have varied on a per claim basis, and are expected to continue to vary considerably over time. As discussed above, a part of the Company's objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Under such agreements, qualification by meeting certain illness and exposure criteria has tended to reduce the number of claims presented to the Company that would ultimately be dismissed or rejected due to the absence of impairment or product exposure evidence. The Company expects that as a result, although aggregate spending may be lower, there may be an increase in the per claim average indemnity payment involved in such resolution. In this regard, although the average of such payments has been somewhat higher following the implementation of the claims-handling agreements in the mid-1990s, the annual average amount has not varied materially from year to year in recent years.

The Company believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot be estimated with certainty. Beginning with the initial liability of $975 million established in 1993, the Company has accrued a total of $2.7 billion through 2003, before insurance recoveries, for its asbestos-related liability. The Company's ability to reasonably estimate its liability has been significantly affected by the volatility of asbestos-related litigation in the United States, the expanding list of non-traditional defendants that have been sued in this litigation and found liable for substantial damage awards, the continued use of litigation screenings to generate new lawsuits, the large number of claims asserted or filed by parties who claim prior exposure to asbestos materials but have no present physical impairment as a result of such exposure, and the growing number of co-defendants that have filed for bankruptcy.

The Company has continued to monitor trends which may affect its ultimate liability and has continued to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company. The Company expects that the total asbestos-related cash payments will be moderately lower in 2004 compared to 2003 and will continue to decline thereafter as the preexisting but presently unasserted claims withheld under the claims handling agreements are presented to the Company and as the number of potential future claimants continues to decrease. The material components of the Company's accrued liability are based on amounts estimated by the Company in connection with its comprehensive review and consist of the following: (i) the reasonably probable contingent liability for asbestos claims already asserted against the Company, (ii) the contingent liability for preexisting but unasserted asbestos claims for prior periods arising under its administrative claims-handling agreements with various plaintiffs' counsel, (iii) the contingent liability for asbestos claims not yet asserted against the Company, but which the Company believes it is reasonably probable will be asserted in the next several years, to the degree that an estimation as to future claims is possible, and (iv) the legal defense costs likely to be incurred in connection with the foregoing types of claims.

The significant assumptions underlying the material components of the Company's accrual are:

a) the extent to which settlements are limited to claimants who were exposed to the Company's asbestos-containing insulation prior to its exit from that business in 1958;

b) the extent to which claims are resolved under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;

c) the extent of decrease or increase in the inventory of pending serious disease cases;

d) the extent to which the Company is able to successfully defend itself at trial;

e) the extent of actions by courts to eliminate, reduce or permit the diversion of financial resources for unimpaired claimants and so-called forum shopping;

f) the extent to which additional defendants with substantial resources and assets are required to participate significantly in the resolution of future asbestos lawsuits and claims;

g) the number and timing of co-defendant bankruptcies; and

h) the extent to which the resolution of co-defendant bankruptcies divert resources to unimpaired claimants.

The Company expects to conduct a comprehensive review of its asbestos-related liabilities and costs annually in connection with finalizing and reporting its annual results of operations, unless significant changes in trends or new developments warrant an earlier review. If the results of an annual comprehensive review indicate that the existing amount of the accrued liability is insufficient to cover its estimated future asbestos-related costs, then the Company will record an appropriate charge to increase the accrued liability.

In April 1999, Crown Cork & Seal Technologies Corporation ("CCS") filed suit against Continental PET Technologies, Inc. ("CPT"), a wholly-owned subsidiary of the Company, in the United States District Court for the District of Delaware alleging that certain plastic containers manufactured by CPT, primarily multi-layer PET containers with barrier properties, infringe CCS's U.S. Patent 5,021,515 relating to an oxygen-scavenging material. CCS is a party to an agreement with Chevron Philips Chemical Company ("Chevron") under which Chevron has rights to sublicense certain CCS patents, including, Chevron believed, the patent involved in the suit against CPT. To avoid the cost of litigation, CPT took a sublicense from Chevron under the patent in suit and other patents. Chevron then entered the suit to defend and assert its right to sublicense the patent in suit to CPT. In November 2002, the Delaware District Court concluded that Chevron did not have the rights it purported to sublicense to CPT and entered a judgment to that effect on March 31, 2003.

In connection with the initial public offering of Constar International Inc. ("Constar"), CCS contributed to Constar the patent involved in the suit against CPT. As a result, Constar was substituted for CCS as the plaintiff in the suit. The Court's judgment will allow Constar to pursue its lawsuit against CPT, which is in its initial stages and had been stayed pending resolution of the Chevron claims. In the lawsuit, Constar seeks certain monetary damages and injunctive relief. CPT will continue to pursue all defenses available to it. However, if the Court were to reach conclusions adverse to CPT on the claims for monetary damages asserted by Constar, the Company believes such determination would not have a material adverse effect on the Company's consolidated results of operations and financial position, and any such damages could be covered in part by third-party indemnification. Additionally, an adverse decision with respect to Constar's request for injunctive relief is not likely to have a material adverse effect on the Company because it believes that it can pursue alternative technologies for the manufacture of multi-layer PET containers with barrier properties.

Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief.

The ultimate legal and financial liability of the Company with respect to the lawsuits and proceedings referred to above, in addition to other pending litigation, cannot be estimated with certainty. The Company's reported results of operations for 2003 were materially affected by the $450 million fourth-quarter charge and asbestos-related payments continue to be substantial. Any possible future additional charge would likewise materially affect the Company's results of operations in the period in which it might be recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and will continue to affect the Company's cost of borrowing and its ability to pursue global or domestic acquisitions. However, the Company believes that its operating cash flows and other sources of liquidity will be sufficient to pay its obligations for asbestos-related costs and to fund its working capital and capital expenditure requirements on a short-term and long-term basis.

**20. Segment Information** The Company operates in the rigid packaging industry. The Company has two reportable product segments within the rigid packaging industry: (1) Glass Containers and (2) Plastics Packaging. The Glass Containers segment includes operations in North America, Europe, the Asia Pacific region, and South America. Following the sale of a substantial portion of the Company's blow-molded plastic container operations which was completed on October 7, 2004, the Plastics Packaging segment consists of two business units—Healthcare Packaging and Closures and Specialty Products.

The Company's measure of profit for its reportable segments is Segment Operating Profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, provision for income taxes and minority share owners' interests in earnings of subsidiaries and excludes amounts related to certain items that management considers not representative of ongoing operations. The Company's management uses Segment Operating Profit, in combination with selected cash flow information, to evaluate performance and to allocate resources.

Operating Profit for product segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. For the Company's U.S. pension plans, net periodic pension cost (credit) has been allocated to product segments. The information below is presented on a continuing operations basis, and therefore, the prior period amounts have been restated to remove the discontinued operations. See Note 21 for more information. Certain amounts from prior year have been reclassified to conform to current year presentation.

Financial information regarding the Company's product segments is as follows:

| | Glass Containers | Plastics Packaging | Other | Total Product Segments | Eliminations and Other Retained | Consolidated Totals |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| 2003 | $ 4,182.9 | $ 792.7 | $ — | $ 4,975.6 | | $ 4,975.6 |
| 2002 | 3,875.2 | 746.0 | — | 4,621.2 | | 4,621.2 |
| 2001 | 3,572.3 | 766.9 | 4.5 | 4,343.7 | | 4,343.7 |
| Segment Operating Profit: | | | | | | |
| 2003 | $ 658.8 | $ 98.7 | $ — | $ 757.5 | $ (91.9) | $ 665.6 |
| 2002 | 709.0 | 136.0 | — | 845.0 | (83.1) | 761.9 |
| 2001 | 627.1 | 141.7 | 0.2 | 769.0 | (64.0) | 705.0 |
| Items excluded from Segment Operating Profit: | | | | | | |
| 2003: | | | | | | |
| Write-down of equity investment | $ (50.0) | | | $ (50.0) | | $ (50.0) |
| Charge for asbestos-related costs | | | | | $ (450.0) | (450.0) |
| Capacity curtailment charges | (72.5) | | | (72.5) | | (72.5) |
| Write-down of Plastics Packaging assets in the Asia Pacific region | | $ (43.0) | | (43.0) | | (43.0) |
| Loss on the sale of certain closures assets | | (41.3) | | (41.3) | | (41.3) |
| Loss on the sale of notes receivable | (37.4) | | | (37.4) | | (37.4) |
| 2002: | | | | | | |
| Charge for asbestos-related costs | | | | | (475.0) | (475.0) |
| 2001: | | | | | | |
| Gain on the sale of a minerals business in Australia | 10.3 | | | 10.3 | | 10.3 |
| Gain on the sale of the Company's label business | | | $ 2.8 | 2.8 | | 2.8 |
| Gain on the sale of the Company's Harbor Capital business | | | | | 457.3 | 457.3 |
| 2001: | | | | | | |
| Restructuring and impairment charges | (64.3) | (1.8) | | (66.1) | | (66.1) |
| Loss on the sale of the Company's facilities in India | (31.0) | | | (31.0) | | (31.0) |
| Special employee benefit programs | (7.6) | (1.3) | | (8.9) | (19.8) | (28.7) |
| Restructuring manufacturing capacity in the medical devices business | | (7.9) | | (7.9) | | (7.9) |

| | Glass Containers | Plastics Packaging | Other | Total Product Segments | Elimina-tions and Other Retained | Consoli-dated Totals |
|---|---|---|---|---|---|---|
| Depreciation and amortization expense (1): | | | | | | |
| 2003 | $ 351.3 | $ 62.9 | $ — | $ 414.2 | $ 13.5 | $ 427.7 |
| 2002 | 319.1 | 61.2 | — | 380.3 | 10.7 | 391.0 |
| 2001 | 298.3 | 55.9 | 5.4 | 359.6 | 13.1 | 372.7 |
| Total assets (2): | | | | | | |
| 2003 | $ 6,277.2 | $ 895.8 | $ — | $ 7,173.0 | $ 2,358.3 | $ 9,531.3 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2002 | 5,851.6 | 1,013.1 | — | 6,864.7 | 3,004.6 | 9,869.3 |
| 2001 | 5,579.5 | 1,025.3 | 34.9 | 6,639.7 | 3,466.9 | 10,106.6 |
| Capital expenditures (3): | | | | | | |
| 2003 | | | | | | |
| Continuing | $ 296.8 | $ 50.2 | $ — | $ 347.0 | $ (2.6) | $ 344.4 |
| Discontinued | | 87.1 | | 87.1 | | 87.1 |
| 2002 | | | | | | |
| Continuing | 319.2 | 72.0 | — | 391.2 | 4.6 | 395.8 |
| Discontinued | | 100.2 | | 100.2 | | 100.2 |
| 2001 | | | | | | |
| Continuing | 351.3 | 69.5 | 0.5 | 421.3 | 2.9 | 424.2 |
| Discontinued | | 107.7 | | 107.7 | | 107.7 |

(1) Excludes goodwill amortization for 2001 for comparative purposes.

(2) Assets of discontinued operations are included in eliminations and other retained.

(3) Excludes property, plant and equipment acquired through acquisitions.

Financial information regarding the Company's geographic segments is as follows:

| | North America | Europe | Asia Pacific | South America | Total Geographic Segments |
|---|---|---|---|---|---|
| Net sales: | | | | | |
| 2003 | $ 2,492.9 | $ 1,197.0 | $ 798.8 | $ 486.9 | $ 4,975.6 |
| 2002 | 2,512.5 | 953.1 | 694.2 | 461.4 | 4,621.2 |
| 2001 | 2,291.4 | 869.3 | 660.6 | 522.4 | 4,343.7 |
| Segment Operating Profit: | | | | | |
| 2003 | $ 379.2 | $ 164.5 | $ 118.9 | $ 94.9 | $ 757.5 |
| 2002 | 512.8 | 115.8 | 127.0 | 89.4 | 845.0 |
| 2001 | 464.2 | 90.9 | 120.6 | 93.3 | 769.0 |
| Items excluded from Segment Operating Profit: | | | | | |
| 2003: | | | | | |
| Write-down of equity investment | $ (50.0) | | | | $ (50.0) |
| Capacity curtailment charge | (48.6) | | $ (23.9) | | (72.5) |
| Write-down of Plastics Packaging assets in the Asia Pacific region | | | (43.0) | | (43.0) |
| Loss on the sale of certain closures assets | (41.3) | | | | (41.3) |
| Loss on the sale of notes receivable | | $ (37.4) | | | (37.4) |
| 2001: | | | | | |
| Gain on the sale of a minerals business in Australia | | | 10.3 | | 10.3 |
| Gain on the sale of the Company's label business | 2.8 | | | | 2.8 |
| Restructuring and impairment charges | (36.0) | (6.1) | (0.8) | $ (23.2) | (66.1) |
| Loss on the sale of the Company's facilities in India | | | (31.0) | | (31.0) |
| Special employee benefit programs | (5.7) | (0.7) | (2.3) | (0.2) | (8.9) |
| Restructuring manufacturing capacity in the medical devices business | (7.9) | | | | (7.9) |

The Company's net property, plant and equipment by geographic segment are as follows:

| | United States | Foreign | Total |
|---|---|---|---|
| 2003 | $ 1,614.9 | $ 1,772.1 | $ 3,387.0 |
| 2002 | 1,729.7 | 1,594.4 | 3,324.1 |
| 2001 | 1,688.2 | 1,571.7 | 3,259.9 |

The Company's net sales by geographic segment are as follows:

| | United States | Foreign | Total |
|---|---|---|---|
| 2003 | $ 2,156.8 | $ 2,818.8 | $ 4,975.6 |
| 2002 | 2,191.2 | 2,430.0 | 4,621.2 |
| 2001 | 2,200.4 | 2,143.3 | 4,343.7 |

Reconciliations to consolidated totals are as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Revenues: | | | |
| Net sales for reportable segments | $ 4,975.6 | $ 4,621.2 | $ 4,343.7 |
| Royalties and net technical assistance | 17.5 | 17.4 | 17.1 |
| Equity earnings | 27.1 | 27.0 | 18.8 |
| Interest income | 20.4 | 22.8 | 25.4 |
| Other revenue | 25.2 | 42.8 | 537.9 |
| Total | $ 5,065.8 | $ 4,731.2 | $ 4,942.9 |
| Reconciliation of Segment Operating Profit to earnings (loss) before income taxes, minority share owners' interest in earnings of subsidiaries and cumulative effect of accounting change: | | | |
| Segment Operating Profit | $ 757.5 | $ 845.0 | $ 769.0 |
| Items excluded from Segment Operating Profit | (244.2) | | (100.8) |
| Eliminations and other retained items, excluding certain items below | (91.9) | (83.1) | (64.0) |
| Items excluded from eliminations and other retained items | (450.0) | (475.0) | 437.5 |
| Amortization of goodwill | | | (55.9) |
| Interest expense | (429.8) | (372.2) | (360.3) |
| Interest income | 20.4 | 22.8 | 25.4 |
| Total | $ (438.0) | $ (62.5) | $ 650.9 |

21. **Goodwill** The changes in the carrying amount of goodwill for the years ended December 31, 2001, 2002 and 2003 are as follows:

| | Glass Containers | Plastics Packaging | Total |
|---|---|---|---|
| Balance as of January 1, 2001 | $ 1,536.5 | $ 1,564.5 | $ 3,101.0 |
| Goodwill acquired during the year | 85.8 | | 85.8 |
| Amortization—continuing operations | (44.5) | (11.4) | (55.9) |
| Amortization—discontinued operations | | (36.4) | (36.4) |
| Translation effects | (64.4) | (2.1) | (66.5) |
| Other changes | (9.8) | (22.9) | (32.7) |
| Balance as of December 31, 2001 | 1,503.6 | 1,491.7 | 2,995.3 |
| Write-down of goodwill | | (460.0) | (460.0) |
| Translation effects | 101.0 | 1.0 | 102.0 |
| Other changes, principally adjustments to purchase price | 48.0 | 5.9 | 53.9 |
| Balance as of December 31, 2002 | 1,652.6 | 1,038.6 | 2,691.2 |
| Translation effects | 285.5 | | 285.5 |
| Write-down of goodwill—discontinued operations | | (670.0) | (670.0) |
| Other changes, principally adjustments to acquisition-related deferred tax assets | (27.0) | 0.5 | (26.5) |
| Balance as of December 31, 2003 | $ 1,911.1 | $ 369.1 | $ 2,280.2 |

During the first quarter of 2002, the Company completed an impairment test under FAS No. 142 using the business enterprise value ("BEV") of each reporting unit. BEVs were calculated as of the measurement date, January 1, 2002, by determining the present value of debt-free, after-tax future cash flows, discounted at the weighted average cost of capital of a hypothetical third party buyer. The BEV of each reporting unit was then compared to the book value of each reporting unit as of the measurement date to assess whether an impairment existed under FAS No. 142. Based on this comparison, the Company determined that an impairment existed in its consumer products reporting unit of the Plastics Packaging segment. Following a review of the valuation of the assets of the consumer products reporting unit, the Company recorded an impairment charge of $460.0 million to reduce the reported value of its goodwill. As required by FAS No. 142, the transitional impairment loss has been recognized as the cumulative effect of a change in method of accounting.

During the fourth quarter of 2003, the Company completed its annual impairment testing and determined that an impairment existed in the goodwill of its consumer products reporting unit. The consumer products unit operates in a highly competitive and fragmented industry. During the course of 2003, a number of the product lines within this reporting unit experienced price reductions, principally as a result of the Company's strategy to preserve and expand market share. The reduced pricing, along with continued capital expenditures, caused the Company to lower its earnings and cash flow projections for the consumer products reporting unit for several years following the measurement date (October 1, 2003) resulting in an estimated fair value for the unit that was lower than its book value. Following a review of the valuation of the unit's identifiable assets, the Company recorded an impairment charge of $670.0 million to reduce the reported value of its goodwill.

22. **Subsequent Events (Unaudited)** On June 21, 2004, the Company completed the acquisition of BSN Glasspack, S.A. from Glasspack Participations. Total consideration for the acquisition was approximately $1.3 billion, including the assumption of debt. BSN was the second largest glass container manufacturer in Europe with manufacturing facilities in France, Spain, Germany, and Holland. The acquisition was financed with borrowings under the Company's Second Amended and Restated Secured Credit Agreement. In an agreement with the European Commission, the Company

committed to divest two plants (located in Barcelona, Spain, and Corsico, Italy) as part of the transaction.

23. **Discontinued operations** On October 7, 2004, the Company announced that it has completed the sale of its blow-molded plastic container operations in North America, South America and Europe, to Graham Packaging Company, a portfolio company of The Blackstone Group.

Cash proceeds of approximately $1.2 billion were used to repay term loans under the Company's bank credit facility, which was amended to permit the sale.

Included in the sale were 24 plastics manufacturing plants in the U.S., two in Mexico, three in Europe and two in South America, serving consumer products companies in the food, beverage, household, chemical and personal care industries. The blow-molded plastic container operations were part of the consumer products business unit of the plastics packaging segment.

As required by FAS No. 144, the Company has presented the results of operations for the blow-molded plastic container business in the Consolidated Results of Operations for the years ended December 31, 2003, 2002 and 2001 as a discontinued operation. Interest expense was allocated to discontinued operations based on debt that was required to be repaid from the proceeds. As such, the prior periods have been reclassified to conform to this presentation.

The following summarizes the revenues and expenses of the discontinued operations as reported in the condensed consolidated results of operation for the period indicated:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| **Revenues:** | | | |
| Net sales | $ 1,083.4 | $ 1,019.2 | $ 1,058.8 |
| Other revenue | 9.0 | 9.7 | 11.6 |
| | 1,092.4 | 1,028.9 | 1,070.4 |
| **Costs and expenses:** | | | |
| Manufacturing, shipping and delivery | 949.3 | 840.5 | 859.1 |
| Research, development and engineering | 20.2 | 22.4 | 23.4 |
| Selling and administrative | 33.8 | 30.7 | 27.2 |
| Interest | 60.8 | 64.9 | 80.3 |
| Other | 681.0 | 6.7 | 70.7 |
| | 1,745.1 | 965.2 | 1,060.7 |
| Earnings (loss) before items below | (652.7) | 63.7 | 9.7 |
| Provision for income taxes | 8.0 | 25.7 | 17.5 |
| Minority share owners' interests in earnings of subsidiaries | | | 0.6 |
| Net (loss) earnings from discontinued operations | $ (660.7) | $ 38.0 | $ (8.4) |

Other costs and expensed for the year ended December 31, 2003 includes an impairment charge of $670.0 million to reduce the reported value of goodwill in the consumer products reporting unit.

The condensed consolidated balance sheets at December 31, 2003 and 2002 included the following assets and liabilities:

| | Balance at December 31, | |
|---|---|---|
| | 2003 | 2002 |
| **Assets:** | | |
| Inventories | $ 155.0 | $ 146.4 |
| Accounts receivable | 112.1 | 91.9 |
| Other current assets | 14.8 | 18.1 |
| Total current assets | 281.9 | 256.4 |
| Goodwill | 149.0 | 819.0 |
| Other long-term assets | 79.2 | 81.5 |
| Net property, plant and equipment | 729.2 | 723.4 |
| Total assets | $ 1,239.3 | $ 1,880.3 |
| **Liabilities:** | | |
| Accounts payable and other current liabilities | $ 103.0 | $ 128.7 |
| Other long-term liabilities | 64.0 | 94.7 |
| Total liabilities | $ 167.0 | $ 223.4 |

24. **Financial Information for Subsidiary Guarantors and Non-Guarantors** The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois, Inc., the issuer of six series of senior notes and debentures (the "Parent"); (2) the two subsidiaries which have guaranteed the senior notes and debentures on a subordinated basis (the "Guarantor Subsidiaries"); and (3) all other subsidiaries (the "Non-Guarantor Subsidiaries"). The Guarantor Subsidiaries are 100% owned direct and indirect subsidiaries of the Company and their guarantees are full, unconditional and joint and several. They have no operations and function only as intermediate holding companies.

Wholly-owned subsidiaries are presented on the equity basis of accounting. Certain reclassifications have been made to conform all of the financial information to the financial presentation on a consolidated basis. The principal eliminations relate to investments in subsidiaries and inter-company balances and transactions.

| Balance Sheet | December 31, 2003 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Current assets: | | | | | |
| Accounts receivable | $ — | $ — | $ 769.7 | $ — | $ 769.7 |
| Inventories | | | 1,010.1 | | 1,010.1 |
| Other current assets | 61.3 | | 280.7 | | 342.0 |
| Total current assets | 61.3 | — | 2,060.5 | — | 2,121.8 |
| Investments in and advances to subsidiaries | 2,957.0 | 1,522.1 | | (4,479.1) | — |
| Goodwill | | | 2,280.2 | | 2,280.2 |
| Other non-current assets | 5.6 | | 1,736.7 | | 1,742.3 |
| Total other assets | 2,962.6 | 1,522.1 | 4,016.9 | (4,479.1) | 4,022.5 |
| Property, plant and equipment, net | | | 3,387.0 | | 3,387.0 |
| Total assets | $ 3,023.9 | $ 1,522.1 | $ 9,464.4 | $ (4,479.1) | $ 9,531.3 |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $ — | $ — | $ 1,096.0 | $ — | $ 1,096.0 |
| Current portion of asbestos liability | 175.0 | | | | 175.0 |
| Short-term loans and long-term debt due within one year | 36.5 | | 92.4 | (36.5) | 92.4 |
| Total current liabilities | 211.5 | — | 1,188.4 | (36.5) | 1,363.4 |
| Long-term debt | 1,398.4 | | 5,333.1 | (1,398.4) | 5,333.1 |
| Asbestos-related liabilities | 628.7 | | | | 628.7 |
| Other non-current liabilities and minority interests | (218.1) | | 1,420.8 | | 1,202.7 |
| Capital structure | 1,003.4 | 1,522.1 | 1,522.1 | (3,044.2) | 1,003.4 |
| Total liabilities and share owners' equity | $ 3,023.9 | $ 1,522.1 | $ 9,464.4 | $ (4,479.1) | $ 9,531.3 |

| | December 31, 2002 | | | | |
|---|---|---|---|---|---|
| **Balance Sheet** | **Parent** | **Guarantor Subsidiaries** | **Non-Guarantor Subsidiaries** | **Eliminations** | **Consolidated** |
| Current assets: | | | | | |
| Accounts receivable | $ — | $ — | $ 701.9 | $ — | $ 701.9 |
| Inventories | | | 893.5 | | 893.5 |
| Other current assets | 68.3 | | 223.5 | | 291.8 |
| Total current assets | 68.3 | — | 1,818.9 | — | 1,887.2 |
| Investments in and advances to subsidiaries | 3,722.1 | 2,022.1 | | (5,744.2) | — |
| Goodwill | | | 2,691.2 | | 2,691.2 |
| Other non-current assets | 12.2 | | 1,954.6 | | 1,966.8 |
| Total other assets | 3,734.3 | 2,022.1 | 4,645.8 | (5,744.2) | 4,658.0 |
| Property, plant and equipment, net | | | 3,324.1 | | 3,324.1 |
| Total assets | $ 3,802.6 | $ 2,022.1 | $ 9,788.8 | $ (5,744.2) | $ 9,869.3 |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $ — | $ — | $ 1,024.2 | $ — | $ 1,024.2 |
| Current portion of asbestos liability | 195.0 | | | | 195.0 |
| Short-term loans and long-term debt due within one year | | | 78.2 | | 78.2 |
| Total current liabilities | 195.0 | — | 1,102.4 | — | 1,297.4 |
| Long-term debt | 1,700.0 | | 5,268.0 | (1,700.0) | 5,268.0 |
| Asbestos-related liabilities | 357.7 | | | | 357.7 |
| Other non-current liabilities and minority interests | (120.9) | | 1,396.3 | | 1,275.4 |
| Capital structure | 1,670.8 | 2,022.1 | 2,022.1 | (4,044.2) | 1,670.8 |
| Total liabilities and share owners' equity | $ 3,802.6 | $ 2,022.1 | $ 9,788.8 | $ (5,744.2) | $ 9,869.3 |

| Results of Operations | Year ended December 31, 2003 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $ — | $ — | $ 4,975.6 | $ — | $ 4,975.6 |
| External interest income | | | 20.4 | | 20.4 |
| Intercompany interest income | 120.3 | 120.3 | | (240.6) | — |
| Equity earnings from subsidiaries | (37.6) | (37.6) | | 75.2 | — |
| Other equity earnings | | | 27.1 | | 27.1 |
| Other revenue | | | 42.7 | | 42.7 |
| Total revenue | 82.7 | 82.7 | 5,065.8 | (165.4) | 5,065.8 |
| Manufacturing, shipping, and delivery | | | 3,967.9 | | 3,967.9 |
| Research, engineering, selling, administrative, and other | 450.0 | | 656.1 | | 1,106.1 |
| External interest expense | 120.3 | | 309.5 | | 429.8 |
| Intercompany interest expense | | 120.3 | 120.3 | (240.6) | — |
| Total costs and expense | 570.3 | 120.3 | 5,053.8 | (240.6) | 5,503.8 |
| Earnings (loss) from continuing operations before items below | (487.6) | (37.6) | 12.0 | 75.2 | (438.0) |
| Provision (credit) for income taxes | (157.5) | | 23.8 | | (133.7) |
| Minority share owners' interests in earnings of subsidiaries | | | 25.8 | | 25.8 |
| Earnings (loss) from continuing operations | (330.1) | (37.6) | (37.6) | 75.2 | (330.1) |
| Net earnings (loss) of discontinued operations | (660.7) | (660.7) | (660.7) | 1,321.4 | (660.7) |
| Net earnings (loss) | $ (990.8) | $ (698.3) | $ (698.3) | $ 1,396.6 | $ (990.8) |

| Results of Operations | Year ended December 31, 2002 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $ — | $ — | $ 4,621.2 | $ — | $ 4,621.2 |
| External interest income | | | 22.8 | | 22.8 |
| Intercompany interest income | 147.9 | 132.5 | | (280.4) | — |
| Equity earnings from subsidiaries | 270.6 | 270.6 | | (541.2) | — |
| Other equity earnings | | | 27.0 | | 27.0 |
| Other revenue | | | 60.2 | | 60.2 |
| Total revenue | 418.5 | 403.1 | 4,731.2 | (821.6) | 4,731.2 |
| Manufacturing, shipping, and delivery | | | 3,572.9 | | 3,572.9 |
| Research, engineering, selling, administrative, and other | 475.0 | | 373.6 | | 848.6 |
| External interest expense | 147.9 | | 224.3 | | 372.2 |
| Intercompany interest expense | | 132.5 | 147.9 | (280.4) | — |
| Total costs and expense | 622.9 | 132.5 | 4,318.7 | (280.4) | 4,793.7 |
| Earnings (loss) from continuing operations before items below | (204.4) | 270.6 | 412.5 | (541.2) | (62.5) |
| Provision (credit) for income taxes | (166.2) | | 116.4 | | (49.8) |
| Minority share owners' interests in earnings of subsidiaries | | | 25.5 | | 25.5 |
| Earnings (loss) from continuing operations before cumulative effect of of accounting change | (38.2) | 270.6 | 270.6 | (541.2) | (38.2) |
| Net earnings of discontinued operations | 38.0 | 38.0 | 38.0 | (76.0) | 38.0 |
| Cumulative effect of accounting change | (460.0) | (460.0) | (460.0) | 920.0 | (460.0) |
| Net earnings (loss) | $ (460.2) | $ (151.4) | $ (151.4) | $ 302.8 | $ (460.2) |

| Results of Operations | Year ended December 31, 2001 | | | | |
| --- | --- | --- | --- | --- | --- |
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $ — | $ — | $ 4,343.7 | $ — | $ 4,343.7 |
| External interest income | | | 25.4 | | 25.4 |
| Intercompany interest income | 206.3 | 199.7 | | (406.0) | — |
| Equity earnings from subsidiaries | 365.0 | 365.0 | | (730.0) | — |
| Other equity earnings | | | 18.8 | | 18.8 |
| Other revenue | | | 555.0 | | 555.0 |
| Total revenue | 571.3 | 564.7 | 4,942.9 | (1,136.0) | 4,942.9 |
| Manufacturing, shipping, and delivery | | | 3,359.3 | | 3,359.3 |
| Research, engineering, selling, administrative, and other | | | 572.4 | | 572.4 |
| External interest expense | 206.3 | | 154.0 | | 360.3 |
| Intercompany interest expense | | 199.7 | 206.3 | (406.0) | — |
| Total costs and expense | 206.3 | 199.7 | 4,292.0 | (406.0) | 4,292.0 |
| Earnings from continuing operations before items below | 365.0 | 365.0 | 650.9 | (730.0) | 650.9 |
| Provision for income taxes | | | 266.4 | | 266.4 |
| Minority share owners' interests in earnings of subsidiaries | | | 19.5 | | 19.5 |
| Earnings from continuing operations | 365.0 | 365.0 | 365.0 | (730.0) | 365.0 |
| Net earnings (loss) of discontinued operations | (8.4) | (8.4) | (8.4) | 16.8 | (8.4) |
| Net earnings | $ 356.6 | $ 356.6 | $ 356.6 | $ (713.2) | $ 356.6 |

| Cash Flows | Year ended December 31, 2003 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Cash provided by (used in) operating activities | $ (192.4) | $ — | $ 545.5 | $ — | $ 353.1 |
| Cash used in investing activities | | | (201.8) | | (201.8) |
| Cash provided by (used in) financing activities | 192.4 | | (314.8) | | (122.4) |
| Effect of exchange rate change on cash | | | 8.1 | | 8.1 |
| Net change in cash | — | — | 37.0 | — | 37.0 |
| Cash at beginning of period | | | 126.4 | | 126.4 |
| Cash at end of period | $ — | $ — | $ 163.4 | $ — | $ 163.4 |

| Cash Flows | Year ended December 31, 2002 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Cash provided by (used in) operating activities | $ (196.3) | $ — | $ 799.4 | $ — | $ 603.1 |
| Cash used in investing activities | | | (474.6) | | (474.6) |
| Cash provided by (used in) financing activities | 196.3 | | (353.6) | | (157.3) |
| Effect of exchange rate change on cash | | | (0.4) | | (0.4) |
| Net change in cash | — | — | (29.2) | — | (29.2) |
| Cash at beginning of period | | | 155.6 | | 155.6 |
| Cash at end of period | $ — | $ — | $ 126.4 | $ — | $ 126.4 |

| Cash Flows | Year ended December 31, 2001 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Cash provided by (used in) operating activities | $ (82.2) | $ — | $ 620.3 | $ — | $ 538.1 |
| Cash used in investing activities | | | (111.2) | | (111.2) |
| Cash provided by (used in) financing activities | 82.2 | | (578.9) | | (496.7) |
| Effect of exchange rate change on cash | | | (4.3) | | (4.3) |
| Net change in cash | — | — | (74.1) | — | (74.1) |
| Cash at beginning of period | | | 229.7 | | 229.7 |
| Cash at end of period | $ — | $ — | $ 155.6 | $ — | $ 155.6 |

**OWENS-ILLINOIS, INC.**

**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS (CONSOLIDATED)**

**Years ended December 31, 2003, 2002, and 2001**
**(Millions of Dollars)**

Reserves deducted from assets in the balance sheets:

*Allowances for losses and discounts on receivables*

| | | Additions | | | |
|---|---|---|---|---|---|
| | Balance at beginning of period | Charged to costs and expenses | Other (Note 2) | Deductions (Note 1) | Balance at end of period |
| 2003 | $ 62.5 | $ 69.9 | $ — | $ 80.4 | $ 52.0 |
| 2002 | $ 71.1 | $ 74.8 | $ — | $ 83.4 | $ 62.5 |
| 2001 | $ 69.9 | $ 79.3 | $ 6.3 | $ 84.4 | $ 71.1 |

(1) Deductions from allowances for losses and discounts on receivables represent uncollectible notes and accounts written off.

(2) Other for 2001 relates to acquisitions during the year.

**OWENS-ILLINOIS, INC.**
**CONDENSED CONSOLIDATED RESULTS OF OPERATIONS**
**(Dollars in millions, except per share amounts)**

| | Nine months ended Sept. 30, | |
|---|---|---|
| | 2004 | 2003 |
| Revenues: | | |
| Net sales | $ 4,402.7 | $ 3,711.5 |
| Royalties and net technical assistance | 15.0 | 12.0 |
| Equity earnings | 22.2 | 20.2 |
| Interest | 10.2 | 17.3 |
| Other | 34.8 | 15.2 |
| | 4,484.9 | 3,776.2 |
| Costs and expenses: | | |
| Manufacturing, shipping, and delivery | 3,543.3 | 2,942.8 |
| Research and development | 18.2 | 20.5 |
| Engineering | 25.9 | 23.8 |
| Selling and administrative | 260.4 | 231.5 |
| Interest | 324.4 | 324.9 |
| Other | 17.4 | 117.3 |
| | 4,189.6 | 3,660.8 |
| Earnings from continuing operations before items below | 295.3 | 115.4 |
| Provision for income taxes | 82.7 | 36.7 |
| Minority share owners' interests in earnings of subsidiaries | 22.2 | 16.7 |
| Earnings from continuing operations | 190.4 | 62.0 |
| Net earnings of discontinued operations | 9.6 | 18.3 |
| Net earnings | $ 200.0 | $ 80.3 |
| Basic net earnings per share of common stock: | | |
| Earnings from continuing operations | $ 1.18 | $ 0.31 |
| Net earnings of discontinued operations | 0.06 | 0.13 |
| Net earnings | $ 1.24 | $ 0.44 |
| Weighted average shares outstanding (thousands) | 147,561 | 146,894 |
| Diluted net earnings per share of common stock: | | |
| Earnings from continuing operations | $ 1.17 | $ 0.31 |
| Net earnings of discontinued operations | 0.06 | 0.13 |
| Net earnings | $ 1.23 | $ 0.44 |
| Weighted diluted average shares (thousands) | 149,098 | 147,624 |

See accompanying notes.

**OWENS-ILLINOIS, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(Dollars in millions, except per share amounts)**

| | Sept. 30, 2004 | Dec. 31, 2003 | Sept. 30, 2003 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash, including time deposits | $ 262.1 | $ 163.4 | $ 148.3 |
| Short-term investments, at cost which approximates market | 61.9 | 26.8 | 28.9 |
| Receivables, less allowances for losses and discounts ($46.6 at Sept. 30, 2004, $52.0 at December 31, 2003, and $53.8 at Sept. 30, 2003) | 887.0 | 769.7 | 875.8 |
| Inventories | 1,024.1 | 1,010.1 | 995.4 |
| Prepaid expenses | 167.9 | 151.8 | 162.0 |
| Assets of discontinued operations | 280.8 | | |
| Total current assets | 2,683.8 | 2,121.8 | 2,210.4 |
| Investments and other assets: | | | |
| Equity investments | 159.5 | 145.3 | 189.1 |
| Repair parts inventories | 179.6 | 201.0 | 204.5 |
| Prepaid pension | 980.9 | 967.1 | 958.3 |
| Deposits, receivables, and other assets | 419.0 | 428.9 | 419.6 |
| Goodwill | 2,872.1 | 2,280.2 | 2,858.2 |
| Assets of discontinued operations | 921.2 | | |
| Total other assets | 5,532.3 | 4,022.5 | 4,629.7 |
| Property, plant, and equipment, at cost | 5,817.9 | 6,411.7 | 6,421.2 |
| Less accumulated depreciation | 2,637.0 | 3,024.7 | 3,017.2 |
| Net property, plant, and equipment | 3,180.9 | 3,387.0 | 3,404.0 |
| Total assets | $ 11,397.0 | $ 9,531.3 | $ 10,244.1 |

| | Sept. 30, 2004 | Dec. 31, 2003 | Sept. 30, 2003 |
|---|---|---|---|
| **Liabilities and Share Owners' Equity** | | | |
| Current liabilities: | | | |
| Short-term loans and long-term debt due within one year | $ 438.6 | $ 92.4 | $ 78.4 |
| Current portion of asbestos-related liabilities | 165.0 | 175.0 | 180.0 |
| Accounts payable and other liabilities | 1,420.6 | 1,096.0 | 1,142.8 |
| Liabilities of discontinued operations | 122.4 | | |
| Total current liabilities | 2,146.6 | 1,363.4 | 1,401.2 |
| Liabilities of discontinued operations | 44.8 | | |
| Long-term debt | 6,148.3 | 5,333.1 | 5,424.0 |
| Deferred taxes | 151.5 | 119.6 | 287.1 |
| Nonpension postretirement benefits | 282.3 | 284.8 | 286.8 |
| Other liabilities | 771.0 | 637.2 | 555.7 |
| Asbestos-related liabilities | 488.4 | 628.7 | 215.5 |
| Commitments and contingencies | | | |
| Minority share owners' interests | 161.9 | 161.1 | 149.7 |
| Share owners' equity: | | | |
| Convertible preferred stock, par value $.01 per share, liquidation preference $50 per share, 9,050,000 shares authorized, issued and outstanding | 452.5 | 452.5 | 452.5 |
| Common stock, par value $.01 per share 250,000,000 shares authorized, 162,252,451 shares issued and outstanding, less 12,666,528 treasury shares at Sept. 30, 2004 (160,768,191 issued and outstanding, less 12,914,262 treasury shares at December 31, 2003 and 160,717,556 issued and outstanding, less 12,914,262 treasury shares at Sept. 30, 2003) | 1.6 | 1.6 | 1.6 |
| Capital in excess of par value | 2,244.4 | 2,229.3 | 2,228.4 |
| Treasury stock, at cost | (242.8) | (247.6) | (247.6) |
| Retained deficit | (1,005.5) | (1,189.3) | (112.9) |
| Accumulated other comprehensive loss | (248.0) | (243.1) | (397.9) |
| Total share owners' equity | 1,202.2 | 1,003.4 | 1,924.1 |
| Total liabilities and share owners' equity | $ 11,397.0 | $ 9,531.3 | $ 10,244.1 |

See accompanying notes.

**OWENS-ILLINOIS, INC.**
**CONDENSED CONSOLIDATED CASH FLOWS**
**(Dollars in millions)**

| | Nine months ended Sept. 30, | |
|---|---|---|
| | **2004** | **2003** |
| Cash flows from operating activities: | | |
| Earnings from continuing operations | $ 190.4 | $ 62.0 |
| Non-cash charges (credits): | | |
| Depreciation | 319.2 | 289.4 |
| Amortization of intangibles and other deferred items | 17.6 | 14.9 |
| Amortization of finance fees | 10.2 | 10.3 |
| Deferred tax provision | (1.2) | 5.2 |
| Gain on sale of certain real property | (20.6) | |
| Loss on the sale of long-term notes receivable | | 37.4 |
| Loss on the sale of certain closures assets | | 37.4 |
| Capacity curtailment charge | | 28.5 |
| Other | (44.5) | (49.0) |
| Change in non-current operating assets | (17.9) | (23.8) |
| Asbestos-related payments | (150.3) | (157.2) |
| Asbestos-related insurance proceeds | 0.4 | 5.0 |
| Change in non-current liabilities | (12.2) | (12.4) |
| Change in components of working capital | 91.0 | (116.8) |
| Cash provided by continuing operating activities | 382.1 | 130.9 |
| Cash provided by discontinued operating activities | 95.4 | 11.4 |
| Cash provided by total operating activities | 477.5 | 142.3 |
| Cash flows from investing activities: | | |
| Continuing Operations—Additions to property, plant, and equipment | (268.5) | (242.5) |
| Discontinued Operations—Additions to property, plant, and equipment | (25.1) | (73.5) |
| Acquisitions, net of cash acquired | (630.3) | |
| Proceeds from sale of long-term notes receivable | | 163.0 |
| Net cash proceeds from divestitures and asset sales | 100.9 | 15.2 |
| Cash utilized in investing activities | (823.0) | (137.8) |
| Cash flows from financing activities: | | |
| Additions to long-term debt | 1,364.0 | 2,071.1 |
| Repayments of long-term debt | (850.3) | (1,917.2) |
| Increase in short-term loans | (11.3) | (0.5) |
| Net payments for debt-related hedging activity | (28.5) | (81.3) |
| Payment of finance fees | (20.1) | (45.6) |
| Convertible preferred stock dividends | (16.1) | (16.1) |
| Issuance of common stock and other | 14.2 | 2.7 |
| Cash provided by financing activities | 451.9 | 13.1 |
| Effect of exchange rate fluctuations on cash | (7.7) | 4.3 |
| Increase in cash | 98.7 | 21.9 |
| Cash at beginning of period | 163.4 | 126.4 |
| Cash at end of period | $ 262.1 | $ 148.3 |

See accompanying notes.

## 1. Earnings Per Share

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

| | Nine months ended Sept. 30, | |
|---|---|---|
| | **2004** | **2003** |
| Numerator: | | |
| Earnings from continuing operations | $ 190.4 | $ 62.0 |
| Convertible preferred stock dividends | (16.1) | (16.1) |
| Numerator for basic earnings per share—income available to common share owners | $ 174.3 | $ 45.9 |
| Denominator: | | |
| Denominator for basic earnings per share—weighted average shares outstanding | 147,560,506 | 146,893,614 |
| Effect of dilutive securities: | | |
| Stock options and other | 1,537,018 | 730,595 |
| Denominator for diluted earnings per share—adjusted weighted average shares outstanding | 149,097,524 | 147,624,209 |
| Basic earnings per share: | | |
| Earnings from continuing operations | $ 1.18 | $ 0.31 |
| Net earnings of discontinued operations | 0.06 | 0.13 |
| Net earnings | $ 1.24 | $ 0.44 |
| Diluted earnings per share: | | |
| Earnings from continuing operations | $ 1.17 | $ 0.31 |
| Net earnings of discontinued operations | 0.06 | 0.13 |
| Net earnings | $ 1.23 | $ 0.44 |

The convertible preferred stock was not included in the computation of diluted earnings per share for the nine months ended September 30, 2004 and 2003 since the result would have been antidilutive. Options to purchase 5,452,934 and 7,211,616 weighted average shares of common stock that were outstanding during the nine months ended September 30, 2004 and 2003, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

## 2. Stock Options

The Company has three nonqualified stock option plans. The Company has adopted the disclosure-only provisions (intrinsic value method) of Statement of Financial Accounting Standards (FAS) No. 123, "Accounting for Stock-Based Compensation." All options have been granted at prices equal to the market price of the Company's common stock on the date granted. Accordingly, the Company recognizes no compensation expense related to the stock option plans.

If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date as allowed by FAS No. 123, pro forma net income and earnings per share would have been as follows:

| | Nine months ended Sept. 30, | |
|---|---|---|
| | 2004 | 2003 |
| Net income: | | |
| As reported | $ 200.0 | $ 80.3 |
| Total stock-based employee compensation expense determined under fair value based method, net of related tax effects | (4.1) | (5.5) |
| Pro forma | $ 195.9 | $ 74.8 |
| Basic earnings per share: | | |
| As reported | $ 1.24 | $ 0.44 |
| Pro forma | 1.22 | 0.40 |
| Diluted earnings per share: | | |
| As reported | 1.23 | 0.44 |
| Pro forma | 1.21 | 0.40 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | 2004 | 2003 |
|---|---|---|
| Expected life of options | 5 years | 5 years |
| Expected stock price volatility | 74.0% | 72.7% |
| Risk-free interest rate | 2.7% | 3.1% |
| Expected dividend yield | 0.0% | 0.0% |

### 3. Long-Term Debt

The following table summarizes the long-term debt of the Company:

| | Sept. 30, 2004 | Dec. 31, 2003 | Sept. 30, 2003 |
|---|---|---|---|
| Secured Credit Agreement: | | | |
| Revolving Credit Facility: | | | |
| Revolving Loans | $ 3.9 | $ — | $ 52.8 |
| Term Loans: | | | |
| A1 Term Loan | 380.0 | 460.0 | 460.0 |
| B1 Term Loan | 840.0 | 840.0 | 840.0 |
| C Term Loan | 395.0 | | |
| C1 Term Loan | 230.0 | | |
| C2 Term Loan (52.0 million Euros) | 64.1 | | |
| D Term Loan | 240.0 | | |
| Senior Secured Notes: | | | |
| 8.875%, due 2009 | 1,000.0 | 1,000.0 | 1,000.0 |
| 7.75%, due 2011 | 450.0 | 450.0 | 450.0 |
| 8.75%, due 2012 | 625.0 | 625.0 | 625.0 |
| Senior Notes: | | | |
| 7.85%, due 2004 | | 36.5 | 36.5 |
| 7.15%, due 2005 | 350.0 | 350.0 | 350.0 |
| 8.10%, due 2007 | 299.9 | 301.3 | 300.0 |
| 7.35%, due 2008 | 249.6 | 248.8 | 250.0 |
| 8.25%, due 2013 | 440.5 | 450.0 | 450.0 |
| Senior Debentures: | | | |
| 7.50%, due 2010 | 250.9 | 248.3 | 250.0 |
| 7.80%, due 2018 | 250.0 | 250.0 | 250.0 |
| Senior Subordinated Notes: | | | |
| 10.25%, due 2009 (147.3 million Euros) | 181.6 | | |
| 9.25%, due 2009 (167.6 million Euros) | 206.6 | | |
| Other | 105.1 | 137.0 | 140.6 |
| Total long-term debt | 6,562.2 | 5,396.9 | 5,454.9 |
| Less amounts due within one year | 413.9 | 63.8 | 30.9 |
| Long-term debt | $ 6,148.3 | $ 5,333.1 | $ 5,424.0 |

In the first quarter of 2004, the Company's subsidiary borrowers entered into the Second Amended and Restated Secured Credit Agreement (the "Agreement"). At September 30, 2004 the Agreement provided for up to $2.7 billion of U.S. dollar borrowings and 52 million of Euro borrowings. At September 30, 2004, the Company's subsidiary borrowers had unused credit of $448.6 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at September 30, 2004 was 4.83%. Including the effects of cross-currency swap agreements related to borrowings under the Agreement by the Company's Australian and European subsidiaries, as discussed in Note 10, the weighted average interest rate was 5.10%.

On October 7, 2004, in connection with the sale of the Company's blow-molded plastic container operations (see Note 16), the Company's subsidiary borrowers entered into the Third Amended and Restated Secured Credit Agreement. The proceeds from the sale were used to repay the C and D term loans and a portion of the B1 term loan outstanding under the previous agreement. The Third Amended and Restated Secured Credit Agreement includes a $600 million revolving credit facility and a $380 million A1 term loan, each of which has a final maturity date of April 1, 2007. It also includes a $275 million B1 term loan, a $230 million C1 term loan, and a 52 million Euro C2 term loan, each of which has a final maturity date of April 1, 2008. The Third Amended and Restated Secured Credit Agreement eliminated the provisions related to the C3 term loan that was cancelled on August 19, 2004. The Third Amended and Restated Secured Credit Agreement also permits the Company, at its option, to refinance certain of its outstanding notes and debentures prior to their scheduled maturity.

As part of the acquisition of BSN Glasspack (see Note 14), the Company assumed the senior subordinated notes of BSN. The 10.25% senior subordinated notes are due August 1, 2009 and have a face amount of 140.0 million Euros and were recorded at the acquisition date at a fair value of 147.7 million Euros. The 9.25% senior subordinated notes are due August 1, 2009 and have a face amount of 160 million Euros and were recorded at the acquisition date at a fair value of 168.0 million Euros.

**4. Supplemental Cash Flow Information**

| | Nine months ended September 30, | |
|---|---|---|
| | **2004** | **2003** |
| Interest paid in cash | $ 347.0 | $ 297.1 |
| Income taxes paid in cash | 67.2 | 42.5 |

Interest paid for the nine months ended September 30, 2003 included $12.6 million related to the repurchase of approximately $263.5 million of the $300 million 7.85% Senior Notes due 2004.

**5. Comprehensive Income**

The components of comprehensive income are: (a) net earnings; (b) change in fair value of certain derivative instruments; (c) adjustment of minimum pension liabilities; and (d) foreign currency translation adjustments. Total comprehensive income is as follows:

| | Nine months ended September 30, | |
|---|---|---|
| | **2004** | **2003** |
| Total comprehensive income | $ 195.1 | $ 266.0 |

**6. Inventories**

Major classes of inventory are as follows:

| | Sept. 30, 2004 | Dec. 31, 2003 | Sept. 30, 2003 |
|---|---|---|---|
| Finished goods | $ 866.6 | $ 789.4 | $ 779.9 |
| Work in process | 6.3 | 9.1 | 8.0 |
| Raw materials | 71.9 | 137.9 | 136.4 |
| Operating supplies | 79.3 | 73.7 | 71.1 |
| | $ 1,024.1 | $ 1,010.1 | $ 995.4 |

At September 30, 2004, the assets and liabilities of the blow-molded plastic container business were presented in the Condensed Consolidated Balance Sheet as the assets and liabilities of discontinued operations and are not included in the September 30, 2004, inventory amounts above.

**7. Contingencies**

The Company is one of a number of defendants in a substantial number of lawsuits filed in numerous state and federal courts by persons alleging bodily injury (including death) as a result of exposure to dust from asbestos fibers. From 1948 to 1958, one of the Company's former business units commercially produced and sold approximately $40 million of a high-temperature, calcium-silicate based pipe and block insulation material containing asbestos. The Company exited the pipe and block insulation business in April 1958. The traditional asbestos personal injury lawsuits and claims relating to

such production and sale of asbestos material typically allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

As of September 30, 2004, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 35,000 plaintiffs and claimants. Based on an analysis of the claims and lawsuits pending as of December 31, 2003, approximately 92% of the plaintiffs and claimants either do not specify the monetary damages sought or, in the case of court filings, claim an amount sufficient to invoke the jurisdiction of the trial court. Fewer than 4% of the plaintiffs specify the maximum of their damages claim to be between $10 million and $33 million, while approximately 4% of the plaintiffs claim specific damage amounts ranging between $6 million to $122 million. A single suit pending since 1991 involving fewer than 0.1% of the plaintiffs and approximately 60 defendants, claims damages of $11 billion.

As indicated by the foregoing summary, modern pleading practice permits considerable variation in the assertion of monetary damages. This variability, together with the actual experience discussed further below of litigating or resolving through settlement hundreds of thousands of asbestos claims and lawsuits over an extended period, demonstrates that the monetary relief which may be specified in a lawsuit or claim bears little relevance to its merits or disposition value. Rather, the amount potentially recoverable for a specific claimant is determined by other factors such as the claimant's severity of disease, product identification evidence against specific defendants, the defenses available to those defendants, the specific jurisdiction in which the claim is made, the claimant's history of smoking or exposure to other possible disease-causative factors, and the various other matters discussed further below.

In addition to the pending claims set forth above, the Company has claims-handling agreements in place with many plaintiffs' counsel throughout the country. These agreements require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by such agreements. The criteria for such claims include verification of a compensable illness and a reasonable probability of exposure to a product manufactured by the Company's former business unit during its manufacturing period ending in 1958. Some plaintiffs' counsel have historically withheld claims under these agreements for later presentation while focusing their attention on active litigation in the tort system. The Company believes that as of September 30, 2004, there are approximately 21,000 of such claims which have been filed against other defendants and which are likely to be asserted some time in the future against the Company. These claims are not included in the totals set forth above. The Company further believes that the bankruptcies of additional co-defendants resulted in an acceleration of the presentation and disposition of a number of these previously withheld preexisting claims under such agreements, which claims would otherwise have been presented and disposed of over the next several years. This acceleration is reflected in an increased number of pending asbestos claims and, to the extent disposed, contributed to additional asbestos-related payments.

The Company is also a defendant in other asbestos-related lawsuits or claims involving maritime workers, medical monitoring claimants, co-defendants and property damage claimants. Based upon its past experience, the Company believes that these categories of lawsuits and claims will not involve any material liability and they are not included in the above description of pending matters or in the following description of disposed matters.

Since receiving its first asbestos claim, the Company, as of September 30, 2004, has disposed of the asbestos claims of approximately 313,000 plaintiffs and claimants at an average indemnity payment per claim of approximately $6,200. Certain of these dispositions have included deferred amounts payable over periods ranging up to seven years. Deferred amounts payable totaled approximately $88 million at

September 30, 2004 ($87 million at December 31, 2003) and are included in the foregoing average indemnity payment per claim. The Company's indemnity payments for these claims have varied on a per claim basis, and are expected to continue to vary considerably over time. As discussed above, a part of the Company's objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Under such agreements, qualification by meeting certain illness and exposure criteria has tended to reduce the number of claims presented to the Company that would ultimately be dismissed or rejected due to the absence of impairment or product exposure evidence. The Company expects that as a result, although aggregate spending may be lower, there may be an increase in the per claim average indemnity payment involved in such resolution.

The Company believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot be estimated with certainty. Beginning with the initial liability of $975 million established in 1993, the Company has accrued a total of $2.7 billion through 2003, before insurance recoveries, for its asbestos-related liability. The Company's ability to reasonably estimate its liability has been significantly affected by the volatility of asbestos-related litigation in the United States, the expanding list of non-traditional defendants that have been sued in this litigation and found liable for substantial damage awards, the continued use of litigation screenings to generate new lawsuits, the large number of claims asserted or filed by parties who claim prior exposure to asbestos materials but have no present physical impairment as a result of such exposure, and the growing number of co-defendants that have filed for bankruptcy.

The Company has continued to monitor trends which may affect its ultimate liability and has continued to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company. The Company expects that the total asbestos-related cash payments will be moderately lower in 2004 compared to 2003 and will continue to decline thereafter as the preexisting but presently unasserted claims withheld under the claims handling agreements are presented to the Company and as the number of potential future claimants continues to decrease. The material components of the Company's accrued liability are based on amounts estimated by the Company in connection with its comprehensive review and consist of the following: (i) the reasonably probable contingent liability for asbestos claims already asserted against the Company, (ii) the contingent liability for preexisting but unasserted asbestos claims for prior periods arising under its administrative claims-handling agreements with various plaintiffs' counsel, (iii) the contingent liability for asbestos claims not yet asserted against the Company, but which the Company believes it is reasonably probable will be asserted in the next several years, to the degree that an estimation as to future claims is possible, and (iv) the legal defense costs likely to be incurred in connection with the foregoing types of claims.

The significant assumptions underlying the material components of the Company's accrual are:

a) the extent to which settlements are limited to claimants who were exposed to the Company's asbestos-containing insulation prior to its exit from that business in 1958;

b) the extent to which claims are resolved under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;

c) the extent of decrease or increase in the inventory of pending serious disease cases;

d) the extent to which the Company is able to successfully defend itself at trial;

e) the extent of actions by courts to eliminate, reduce or permit the diversion of financial resources for unimpaired claimants and so-called forum shopping;

f) the extent to which additional defendants with substantial resources and assets are required to participate significantly in the resolution of future asbestos lawsuits and claims;

g) the number and timing of co-defendant bankruptcies; and

h) the extent to which the resolution of co-defendant bankruptcies divert resources to unimpaired claimants.

The Company expects to conduct a comprehensive review of its asbestos-related liabilities and costs in connection with finalizing and reporting its results of operations for the year ended December 31, 2004. If the results of this review indicate that the existing amount of the accrued liability is insufficient to cover its estimated future asbestos-related costs, then the Company will record an appropriate charge to increase the accrued liability. While the results of this review cannot be estimated at this time, the Company expects that an increase of the accrued liability will be required in order to cover estimated indemnity payments and legal fees arising from asbestos personal injury lawsuits and claims filed in the next several years.

In April 1999, Crown Cork & Seal Technologies Corporation ("CCS") filed suit against Continental PET Technologies, Inc. ("CPT"), then a wholly-owned subsidiary of the Company in the United States District Court for the District of Delaware alleging that certain plastic containers manufactured by CPT, primarily multi-layer PET containers with barrier properties, infringe CCS's U.S. Patent 5,021,515 relating to an oxygen scavenging material. In connection with the initial public offering of Constar International Inc. ("Constar"), CCS contributed to Constar the patent involved in the suit against CPT. As a result, Constar was substituted for CCS as the plaintiff in the suit.

In November 2004, the Company finalized a settlement of this litigation. The settlement involves the grant of a license to the Company and to CPT of the technology in dispute, in return for a payment to Constar of $25.1 million, which approximated the amount accrued by the Company for this expected resolution. The Company believes it has meritorious third party reimbursement claims relating to a substantial portion of this settlement and intends to pursue such claims.

Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief.

The ultimate legal and financial liability of the Company with respect to the lawsuits and proceedings referred to above, in addition to other pending litigation, cannot be estimated with certainty. The Company's reported results of operations for 2003 were materially affected by the $450 million fourth-quarter charge for asbestos-related costs and asbestos-related payments continue to be substantial. Any possible future additional charge would likewise materially affect the Company's results of operations in the period in which it might be recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and will continue to affect the Company's cost of borrowing and its ability to pursue global or domestic acquisitions. However, the Company believes that its operating cash flows and other sources of liquidity will be sufficient to pay its obligations for asbestos-related costs and to fund its working capital and capital expenditure requirements on a short-term and long-term basis.

**8. Segment Information**

The Company operates in the rigid packaging industry. The Company has two reportable product segments within the rigid packaging industry: (1) Glass Containers and (2) Plastics Packaging. The Glass Containers segment includes operations in North America, Europe, the Asia Pacific region, and

South America. Following the sale of a substantial portion of the Company's blow-molded plastic container operations which was completed on October 7, 2004, the Plastics Packaging segment consists of two business units—Healthcare Packaging and Closures and Specialty Products.

The Company's measure of profit for its reportable segments is Segment Operating Profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, provision for income taxes and minority share owners' interests in earnings of subsidiaries and excludes amounts related to certain items that management considers not representative of ongoing operations. The Company's management uses Segment Operating Profit, in combination with selected cash flow information, to evaluate performance and to allocate resources.

Operating Profit for product segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. For the Company's U.S. pension plans, net periodic pension cost (credit) has been allocated to product segments. The information below is presented on a continuing operations basis, and therefore, the prior period amounts have been restated to remove the discontinued operations. See Note 16 for more information. Certain amounts from prior year have been reclassified to conform to current year presentation.

Financial information for continuing operations for the nine-month periods ended September 30, 2004 and 2003 regarding the Company's product segments is as follows:

| | Glass Containers | Plastics Packaging | Total Product Segments | Eliminations and Other Retained Items | Consolidated Totals |
|---|---|---|---|---|---|
| Net sales: | | | | | |
| 2004 | $ 3,826.1 | $ 576.6 | $ 4,402.7 | | $ 4,402.7 |
| 2003 | 3,116.5 | 595.0 | 3,711.5 | | 3,711.5 |
| Segment Operating Profit: | | | | | |
| 2004 | $ 564.8 | $ 95.3 | $ 660.1 | $ (71.2) | $ 588.9 |
| 2003 | 516.9 | 74.4 | 591.3 | (65.0) | 526.3 |
| Items excluded from Segment Operating Profit: | | | | | |
| September 30, 2004 | | | | | |
| Gain on the sale of certain real property | $ 20.6 | | $ 20.6 | | $ 20.6 |
| September 30, 2003 | | | | | |
| Loss on the sale of notes receivable | (37.4) | | (37.4) | | (37.4) |
| Loss on the sale of certain closures assets | | $ (37.4) | (37.4) | | (37.4) |
| Capacity curtailment charge | (28.5) | | (28.5) | | (28.5) |

The reconciliation of Segment Operating Profit to earnings from continuing operations before income taxes and minority share owners' interests in earnings of subsidiaries for the nine-month periods ended September 30, 2004 and 2003 is as follows:

| | 2004 | 2003 |
|---|---|---|
| Segment Operating Profit for reportable segments | $ 660.1 | $ 591.3 |
| Items excluded from Segment Operating Profit | 20.6 | (103.3) |
| Eliminations and other retained items | (71.2) | (65.0) |
| Interest expense | (324.4) | (324.9) |
| Interest income | 10.2 | 17.3 |
| Total | $ 295.3 | $ 115.4 |

As discussed further in Note 14, the Company acquired BSN Glasspack on June 21, 2004. The total assets by segment at September 30, 2004 reflect the addition of the BSN assets, based on preliminary fair values, to the Glass Containers segment.

| | Glass Containers | Plastics Packaging | Total Product Segments | Discontinued Operations | Eliminations and Other Retained Items | Consolidated Totals |
|---|---|---|---|---|---|---|
| Total assets: | | | | | | |
| September 30, 2004 | $ 8,241.1 | $ 778.8 | $ 9,019.9 | $ 1,202.0 | $ 1,175.1 | $ 11,397.0 |
| December 31, 2003 | 6,277.2 | 895.8 | 7,173.0 | 1,239.3 | 1,119.0 | 9,531.3 |
| September 30, 2003 | 6,086.3 | 999.2 | 7,085.5 | 1,934.3 | 1,224.3 | 10,244.1 |

## 9. Other Revenue and Other Costs and Expenses

During the second quarter of 2004, the Company completed the sale of certain real property and a warehouse in the United Kingdom. The resulting gain of $20.6 million ($14.5 million after tax) was included in other revenue in the results of operations for the second quarter of 2004.

Also during the second quarter of 2004, the Company recorded a charge of $14.5 million ($9.1 million after tax) for an increase in the estimated probable liability for the resolution of certain intellectual property litigation in other costs and expenses. This charge was included in discontinued operations for the nine months ended September 30, 2004. See Note 7 for additional information on this intellectual property litigation.

On July 11, 2003, the Company received payments totaling 100 million British pounds sterling (US$163.0 million) in connection with the sale to Ardagh Glass Limited of certain long-term notes receivable. The notes were received from Ardagh in 1999 by the Company's wholly-owned subsidiary, United Glass Limited, in connection with its sale of Rockware, a United Kingdom glass container manufacturer obtained in the 1998 acquisition of the worldwide glass and plastics packaging businesses of BTR plc. The notes were due in 2006 and interest had previously been paid in kind through periodic increases in outstanding principal balances. The proceeds from the sale of the notes were used to reduce outstanding borrowings under the Agreement. The notes were sold at a discount of approximately 22.6 million British pounds sterling. The resulting loss of US$37.4 million (pre tax and after tax) was included in other costs and expenses in the results of operations for the second quarter of 2003.

In August 2003, the Company announced the permanent closing of its Hayward, California glass container factory. Production at the factory was suspended in June of 2003 following a major leak in its only glass furnace. As a result, the Company recorded a capacity curtailment charge of $28.5 million ($17.8 million after tax) in the third quarter of 2003. See Note 11 for additional information.

During the fourth quarter of 2003, the Company completed the sale of its assets related to the production of plastic trigger sprayers and finger pumps. Included in the sale were manufacturing facilities in Bridgeport, Connecticut and El Paso, Texas, in addition to related production assets at the Erie, Pennsylvania plant. As a result of the sale, the Company recorded a loss of $37.4 million ($23.4 million after tax) in the third quarter of 2003.

**10. Derivative Instruments**

The terms of the Third Amended and Restated Secured Credit Agreement require that borrowings under the Agreement be denominated in U.S. dollars except for the C2 term loan which allows for 52 million Euro borrowings. In order to manage the exposure to fluctuating foreign exchange rates created by U.S. dollar borrowings by the Company's international subsidiaries, certain subsidiaries have entered into currency swaps for the principal amount of their borrowings under the Agreement and for their interest payments due under the Agreement.

At the end of the third quarter of 2004, the Company's subsidiary in Australia had agreements that swap a total of U.S. $455 million of borrowings into 702 million Australian dollars. These derivative instruments swap both the interest and principal from U.S. dollars to Australian dollars and also swap the interest rate from a U.S.-based rate to an Australian-based rate. These agreements have various maturity dates ranging from April 2005 through March 2006.

The Company's subsidiaries in Australia, Canada, the United Kingdom and several other European countries have also entered into short term forward exchange contracts which effectively swap additional intercompany and external borrowings by each subsidiary into its local currency. These contracts swap both the interest and principal amount of borrowings in excess of amounts covered by the swap contracts described above.

The Company recognizes the above derivatives on the balance sheet at fair value, and the Company accounts for them as fair value hedges. Accordingly, the changes in the value of the swaps are recognized in current earnings and are expected to substantially offset any exchange rate gains or losses on the related U.S. dollar borrowings. For nine months ended September 30, 2004, the amount not offset was immaterial.

In the fourth quarter of 2003 and the first quarter of 2004, the Company entered into a series of interest rate swap agreements with a total notional amount of $1.25 billion that mature from 2007 through 2013. The swaps were executed in order to: (i) convert a portion of the senior notes and senior debentures fixed-rate debt into floating-rate debt; (ii) maintain a capital structure containing appropriate amounts of fixed and floating-rate debt; and (iii) reduce net interest payments and expense in the near-term.

The Company's fixed-to-variable interest rate swaps are accounted for as fair value hedges. Because the relevant terms of the swap agreements match the corresponding terms of the notes, there is no hedge ineffectiveness. Accordingly, as required by FAS No. 133, the Company recorded the net of the fair market values of the swaps as a long-term liability along with a corresponding net decrease in the carrying value of the hedged debt.

Under the swaps, the Company receives fixed rate interest amounts (equal to interest on the corresponding hedged note) and pays interest at a six month U.S. LIBOR rate (set in arrears) plus a margin spread (see table below). The interest rate differential on each swap is recognized as an adjustment of interest expense over the term of the agreement.

The following selected information relates to fair value swaps at September 30, 2004 (based on a projected U.S. LIBOR rate of 2.5178%):

| | Amount Hedged | Average Receive Rate | Average Spread | Asset (Liability) Recorded |
|---|---|---|---|---|
| Senior Notes due 2007 | $ 300.0 | 8.10% | 4.5% | $ (0.1) |
| Senior Notes due 2008 | 250.0 | 7.35% | 3.5% | (0.3) |
| Senior Debentures due 2010 | 250.0 | 7.50% | 3.2% | 0.9 |
| Senior Notes due 2013 | 450.0 | 8.25% | 3.7% | (9.5) |
| Total | $ 1,250.0 | | | $ (9.0) |

The Company also uses commodity futures contracts related to forecasted natural gas requirements. The objective of these futures contracts is to limit the fluctuations in prices paid for natural gas and the potential volatility in earnings or cash flows from future market price movements. The Company continually evaluates the natural gas market with respect to its future usage requirements. The Company generally evaluates the natural gas market for the next twelve to eighteen months and continually enters into commodity futures contracts in order to hedge a portion of its usage requirements through the next twelve to eighteen months. At September 30, 2004, the Company had entered into commodity futures contracts for approximately 75% (approximately 4,500,000 MM BTUs) of its expected North American natural gas usage for the last three months of 2004, approximately 72% (approximately 17,280,000 MM BTUs) for the full year of 2005 and approximately 22% (approximately 5,280,000 MM BTUs) for the full year of 2006.

The Company accounts for the above futures contracts on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in accumulated other comprehensive income ("OCI") and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. Any material portion of the change in the fair value of a derivative designated as a cash flow hedge that is deemed to be ineffective is recognized in current earnings.

The above futures contracts are accounted for as cash flow hedges at September 30, 2004. Hedge accounting is only applied when the derivative is deemed to be highly effective at offsetting anticipated cash flows of the hedged transactions. For hedged forecasted transactions, hedge accounting will be discontinued if the forecasted transaction is no longer probable to occur, and any previously deferred gains or losses will be recorded to earnings immediately.

At September 30, 2004, an unrealized net gain of $13.7 million, after tax of $7.4 million, related to these commodity futures contracts was included in OCI. The ineffectiveness related to these natural gas hedges for the nine months ended September 30, 2004 and 2003 was not material.

The Company's international subsidiaries may enter into short-term forward exchange agreements to purchase foreign currencies at set rates in the future. These foreign currency forward exchange agreements are used to limit exposure to fluctuations in foreign currency exchange rates for all significant planned purchases of fixed assets or commodities that are denominated in a currency other than the subsidiaries' functional currency. Subsidiaries may also use forward exchange agreements to offset the foreign currency risk for receivables and payables not denominated in, or indexed to, their functional currency. The Company records these short-term forward exchange agreements on the balance sheet at fair value and changes in the fair value are recognized in current earnings.

**11. Restructuring Accruals**

In August 2003, the Company announced the permanent closing of its Hayward, California glass container factory. Production at the factory was suspended in June of 2003 following a major leak in its only glass furnace. As a result, the Company recorded a capacity curtailment charge of $28.5 million ($17.8 million after tax) in the third quarter of 2003.

The closing of this factory resulted in the elimination of approximately 170 jobs and a corresponding reduction in the Company's workforce. The Company expects to save approximately $12 million per year by closing this factory and moving the production to other locations. The Company anticipates that it will pay out approximately $15 million in cash related to severance, benefits, lease commitments, plant clean-up, and other plant closing costs. The Company expects that a substantial portion of these costs will be paid out by the end of 2005.

In November 2003, the Company announced the permanent closing of its Milton, Ontario glass container factory. This closing was part of an effort to bring capacity and inventory levels in line with anticipated demand. As a result, the Company recorded a capacity curtailment charge of $20.1 million ($19.5 million after tax) in the fourth quarter of 2003.

The closing of this factory in November 2003 resulted in the elimination of approximately 150 jobs and a corresponding reduction in the Company's workforce. The Company eventually expects to save approximately $8.5 million per year by closing this factory and moving the production to other locations. The Company anticipates that it will pay out approximately $8.0 million in cash related to severance, benefits, plant clean-up, and other plant closing costs. The Company expects that the majority of these costs will be paid out by the end of 2005.

In December 2003, the Company announced the permanent closing of its Perth, Australia glass container factory. This closing was part of an effort to reduce overall capacity in Australia and bring inventory levels in line with anticipated demand. The Perth plant's western location and small size contributed to the plant being a higher cost facility that was no longer economically feasible to operate. As a result, the Company recorded a capacity curtailment charge of $23.9 million ($17.4 million after tax) in other costs and expenses in the results of operations for 2003.

The closing of this factory in December 2003 resulted in the elimination of approximately 107 jobs and a corresponding reduction in the Company's workforce. The Company expects to save approximately $9 million per year by closing this factory and eventually moving the production to other locations. The Company anticipates that it will pay out approximately $10 million in cash related to severance, benefits, plant clean-up, and other plant closing costs. The Company expects that the majority of these costs will be paid out by the end of 2004.

Selected information related to the above glass container factory closings is as follows:

| | Hayward | Milton | Perth | Total |
|---|---|---|---|---|
| Accrual balance as of December 31, 2003 | $ 12.2 | $ 12.0 | $ 5.4 | $ 29.6 |
| Net cash paid | (0.9) | (2.2) | (2.0) | (5.1) |
| Other, principally translation | | (0.4) | 0.3 | (0.1) |
| Accrual balance as of March 31, 2004 | 11.3 | 9.4 | 3.7 | 24.4 |
| Net cash paid | (0.7) | (1.0) | (1.4) | (3.1) |
| Other, principally translation | | 0.2 | 0.7 | 0.9 |
| Remaining accruals related to plant closing charges as of June 30, 2004 | 10.6 | 8.6 | 3.0 | 22.2 |
| Net cash paid | (0.5) | (0.6) | (0.7) | (1.8) |
| Other, principally translation | | 0.5 | (1.0) | (0.5) |
| Remaining accruals related to plant closing charges as of September 30, 2004 | $ 10.1 | $ 8.5 | $ 1.3 | $ 19.9 |

**12. Pensions**

The components of the net pension expense (credit) for the nine months ended September 30, 2004 and 2003 were as follows:

| | 2004 | 2003 |
|---|---|---|
| Service cost | $ 42.4 | $ 36.3 |
| Interest cost | 144.7 | 133.7 |
| Expected asset return | (214.8) | (205.6) |
| Amortization: | | |
| Prior service cost | 4.7 | 5.1 |
| Loss | 29.4 | 7.9 |
| Net amortization | 34.1 | 13.0 |
| Net expense (credit) | $ 6.4 | $ (22.6) |

The pension expense above for the nine months ended September 30, 2004 reflects the additional pension expense of the BSN operations acquired on June 21, 2004.

The Company previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute $33.9 million to its pension plans in 2004. As of September 30, 2004, $23.0 million of contributions have been made. The Company presently expects its contributions for the full year of 2004 to be approximately $36 million. The increase is principally a result of the acquisition of BSN.

## 13. Postretirement Benefits Other Than Pensions

The components of the net postretirement benefit cost for the nine months ended September 30, 2004 and 2003 were as follows:

| | 2004 | 2003 |
|---|---|---|
| Service cost | $ 3.3 | $ 2.7 |
| Interest cost | 15.7 | 17.4 |
| Amortization: | | |
| Prior service credit | (5.6) | (9.7) |
| Loss | 3.5 | 2.7 |
| Net amortization | (2.1) | (7.0) |
| Net postretirement benefit cost | $ 16.9 | $ 13.1 |

The postretirement benefit costs above for the nine months ended September 30, 2004 reflect the additional expense of the BSN operations.

Effective July 1, 2004, the Company amended its U.S. salaried postretirement medical plan to align benefits with those of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The effect of the amendment will reduce the full year of 2004 expense by approximately $5.3 million.

## 14. Acquisition of BSN Glasspack S.A.

On June 21, 2004, the Company completed the acquisition of BSN Glasspack, S.A. ("BSN") from Glasspack Participations (the "Acquisition"). Total consideration for the Acquisition was approximately $1.3 billion, including the assumption of debt. BSN was the second largest glass container manufacturer in Europe with manufacturing facilities in France, Spain, Germany and Holland. The Acquisition was financed with borrowings under the Company's Second Amended and Restated Secured Credit Agreement (see Note 3). In an agreement with the European Commission, the Company committed to divest two plants (located in Barcelona, Spain, and Corsico, Italy) as part of the transaction.

The acquisition was part of the Company's overall strategy to improve its presence in the European market in order to better serve the needs of its customers throughout the European region and to take advantage of synergies in purchasing and costs reduction that will allow the Company to significantly improve the earnings contribution provided by the entire European operations. This integration strategy should lead to significant improvement in earnings by the end of 2006. Certain actions contemplated by the integration strategy may require additional accruals that will increase goodwill or result in one-time charges to operations. The Company is currently in the process of evaluating its capacity in relation to the overall market demand in Europe and may decide to reduce capacity based upon this evaluation.

The total purchase cost of approximately $1.3 billion will be allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. Such allocations will be based upon valuations which have not been finalized. Accordingly, the allocation of the purchase consideration included in the accompanying Condensed Consolidated Balance Sheet at September 30, 2004, is preliminary and includes $773.5 million in goodwill representing the unallocated portion of the purchase price. The Company expects that a substantial portion of the valuation process will be completed by the end of 2004 and the balance will be completed no later than the second quarter of 2005. The accompanying Condensed Consolidated Results of Operations for the nine month period ended September 30, 2004, included three months and ten days of BSN operations. The BSN operations were included for the entire three month period ended September 30, 2004.

### 15. Pro Forma Information—Acquisition of BSN Glasspack S.A.

Had the Acquisition described in Note 14 and the related financing described in Note 3 occurred at the beginning of each respective period, unaudited pro forma consolidated net sales, net earnings, and net earnings per share of common stock would have been as follows:

| | Nine months ended September 30, 2004 | | | |
|---|---|---|---|---|
| | As Reported | BSN Adjustments | Financing Adjustments | Pro Forma As Adjusted |
| Net sales | $ 4,402.7 | $ 752.5 | | $ 5,155.2 |
| Earnings from continuing operations | $ 190.4 | $ 21.6 | $ (6.4) | $ 205.6 |
| Diluted earnings from continuing operations per share of common stock | $ 1.17 | | | $ 1.27 |

| | Nine months ended September 30, 2003 | | | |
|---|---|---|---|---|
| | As Reported | BSN Adjustments | Financing Adjustments | Pro Forma As Adjusted |
| Net sales | $ 3,711.5 | $ 1,109.3 | | $ 4,820.8 |
| Earnings from continuing operations | $ 62.0 | $ 0.2 | $ (13.8) | $ 48.4 |
| Diluted earnings from continuing operations per share of common stock | $ 0.31 | | | $ 0.22 |

The first nine months of 2004 earnings included the step-up effect of the finished goods inventory acquired from the acquisition that reduced gross profit by approximately $31.1 million.

**16. Discontinued operations**

On October 7, 2004, the Company announced that it had completed the sale of its blow-molded plastic container operations in North America, South America and Europe, to Graham Packaging Company, a portfolio company of The Blackstone Group.

Cash proceeds of approximately $1.2 billion were used to repay term loans under the Company's bank credit facility, which was amended to permit the sale.

Included in the sale were 24 plastics manufacturing plants in the U.S., two in Mexico, three in Europe and two in South America, serving consumer products companies in the food, beverage, household, chemical and personal care industries. The blow-molded plastic container operations were part of the plastics packaging segment.

As required by FAS No. 144, the Company has presented the results of operations for the blow-molded plastic container business in the Condensed Consolidated Results of Operations for the nine month periods ended September 30, 2004 and 2003 as a discontinued operation. As such, results for the prior periods have been reclassified to conform to this presentation. At September 30, 2004, the assets and liabilities of the blow-molded plastic container business were presented in the Condensed Consolidated Balance Sheet as the assets and liabilities of discontinued operations.

The following summarizes the revenues and expenses of the discontinued operations as reported in the Condensed Consolidated Results of Operation for the period indicated:

| | Nine months ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| **Revenues:** | | |
| Net sales | $ 858.6 | $ 843.0 |
| Other revenue | 7.6 | 7.3 |
| | 866.2 | 850.3 |
| **Costs and expenses:** | | |
| Manufacturing, shipping and delivery | 736.6 | 725.7 |
| Research, development and engineering | 15.7 | 15.9 |
| Selling and administrative | 21.8 | 23.2 |
| Interest | 44.1 | 44.5 |
| Other | 22.7 | 10.0 |
| | 840.9 | 819.3 |
| Earnings before items below | 25.3 | 31.0 |
| Provision for income taxes | 15.7 | 12.7 |
| Net earnings from discontinued operations | $ 9.6 | $ 18.3 |

The Condensed Consolidated Balance Sheet at September 30, 2004 included the following assets and liabilities of the discontinued operations:

| | Balance at Sept. 30, 2004 |
|---|---|
| **Assets:** | |
| Inventories | $ 139.4 |
| Accounts receivable | 131.9 |
| Other current assets | 9.5 |
| Total current assets | 280.8 |
| Goodwill | 149.0 |
| Other long-term assets | 72.4 |
| Net property, plant and equipment | 699.8 |
| Total assets | $ 1,202.0 |
| **Liabilities:** | |
| Accounts payable and other current liabilities | $ 122.4 |
| Other long-term liabilities | 44.8 |
| Total liabilities | $ 167.2 |

### 17. Accounts Receivable Securitization Program

As part of the acquisition of BSN, the Company acquired a trade accounts receivable securitization program through a BSN subsidiary, BSN Glasspack Services. The program was entered into by BSN in order to provide lower interest costs on a portion of its financing. In November 2000, BSN created a securitization program for its trade receivables through a sub-fund (the "fund") created in accordance with French Law. This securitization program, co-arranged by Credit Commercial de France (HSBC-CCF), and Gestion et Titrisation Internationales ("GTI") and managed by GTI, provides for an aggregate securitization volume of up to 210 million Euros.

Under the program, BSN Glasspack Services is permitted to sell receivables to the fund until November 5, 2006. According to the program, subject to eligibility criteria, certain, but not all, receivables held by the BSN Glasspack Services are sold to the fund on a weekly basis. The purchase price for the receivables is determined as a function of the book value and the term of each receivable and a Euribor three-month rate increased by a 1.51% margin. A portion of the purchase price for the receivables is deferred and paid by the fund to BSN Glasspack Services only when receivables are collected or at the end of the program. This deferred portion varies based on the status and updated collection history of BSN Glasspack Services' receivable portfolio.

The transfer of the receivables to the fund is deemed to be a sale for U.S. GAAP purposes. The fund assumes all collection risk on the receivables and the transferred receivables have been isolated from BSN Glasspack Services and are no longer controlled by BSN Glasspack Services. The total securitization program cannot exceed 210 million Euros ($259.0 million USD at September 30, 2004). At September 30, 2004, the Company had $208.4 million USD of receivables that were sold in this program. For the three months ended September 30, 2004, the Company received $389.7 million from the sale of receivables to the fund and paid interest of approximately $1.6 million.

BSN Glasspack Services continues to service, administer and collect the receivables on behalf of the fund. This service rendered to the fund is invoiced to the fund at a normal market rate.

**18. Financial Information for Subsidiary Guarantors and Non-Guarantors**

The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois, Inc., the issuer of five series of senior notes and debentures (the "Parent"); (2) the two subsidiaries which have guaranteed the senior notes and debentures on a subordinated basis (the "Guarantor Subsidiaries"); and (3) all other subsidiaries (the "Non-Guarantor Subsidiaries"). The Guarantor Subsidiaries are 100% owned direct and indirect subsidiaries of the Company and their guarantees are full, unconditional and joint and several. They have no operations and function only as intermediate holding companies.

100% owned subsidiaries are presented on the equity basis of accounting. Certain reclassifications have been made to conform all of the financial information to the financial presentation on a

consolidated basis. The principal eliminations relate to investments in subsidiaries and inter-company balances and transactions.

| | September 30, 2004 | | | | |
|---|---|---|---|---|---|
| **Balance Sheet** | **Parent** | **Guarantor Subsidiaries** | **Non-Guarantor Subsidiaries** | **Eliminations** | **Consolidated** |
| Current assets: | | | | | |
| Accounts receivable | $ — | $ — | $ 887.0 | $ — | $ 887.0 |
| Inventories | | | 1,024.1 | | 1,024.1 |
| Assets of discontinued operations | | | 280.8 | | 280.8 |
| Other current assets | 57.8 | | 434.1 | | 491.9 |
| Total current assets | 57.8 | — | 2,626.0 | — | 2,683.8 |
| Investments in and advances to subsidiaries | 3,023.5 | 1,623.5 | | (4,647.0) | — |
| Assets of discontinued operations | | | 921.2 | | 921.2 |
| Goodwill | | | 2,872.1 | | 2,872.1 |
| Other non-current assets | 5.2 | | 1,733.8 | | 1,739.0 |
| Total other assets | 3,028.7 | 1,623.5 | 5,527.1 | (4,647.0) | 5,532.3 |
| Property, plant and equipment, net | | | 3,180.9 | | 3,180.9 |
| Total assets | $ 3,086.5 | $ 1,623.5 | $ 11,334.0 | $ (4,647.0) | $ 11,397.0 |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $ — | $ — | $ 1,420.6 | $ — | $ 1,420.6 |
| Current portion of asbestos liability | 165.0 | | | | 165.0 |
| Liabilities of discontinued operations | | | 122.4 | | 122.4 |
| Short-term loans and long-term debt due within one year | 350.0 | | 438.6 | (350.0) | 438.6 |
| Total current liabilities | 515.0 | — | 1,981.6 | (350.0) | 2,146.6 |
| Long-term debt | 1,050.0 | | 6,148.3 | (1,050.0) | 6,148.3 |
| Asbestos-related liabilities | 488.4 | | | | 488.4 |
| Liabilities of discontinued operations | | | 44.8 | | 44.8 |
| Other non-current liabilities and minority interests | (169.1) | | 1,535.8 | | 1,366.7 |
| Capital structure | 1,202.2 | 1,623.5 | 1,623.5 | (3,247.0) | 1,202.2 |
| Total liabilities and share owners' equity | $ 3,086.5 | $ 1,623.5 | $ 11,334.0 | $ (4,647.0) | $ 11,397.0 |

| Balance Sheet | December 31, 2003 Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Accounts receivable | $ — | $ — | $ 769.7 | $ — | $ 769.7 |
| Inventories | | | 1,010.1 | | 1,010.1 |
| Other current assets | 61.3 | | 280.7 | | 342.0 |
| Total current assets | 61.3 | — | 2,060.5 | — | 2,121.8 |
| Investments in and advances to subsidiaries | 2,957.0 | 1,522.1 | | (4,479.1) | — |
| Goodwill | | | 2,280.2 | | 2,280.2 |
| Other non-current assets | 5.6 | | 1,736.7 | | 1,742.3 |
| Total other assets | 2,962.6 | 1,522.1 | 4,016.9 | (4,479.1) | 4,022.5 |
| Property, plant and equipment, net | | | 3,387.0 | | 3,387.0 |
| Total assets | $ 3,023.9 | $ 1,522.1 | $ 9,464.4 | $ (4,479.1) | $ 9,531.3 |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $ — | $ — | $ 1,096.0 | $ — | $ 1,096.0 |
| Current portion of asbestos liability | 175.0 | | | | 175.0 |
| Short-term loans and long-term debt due within one year | 36.5 | | 92.4 | (36.5) | 92.4 |
| Total current liabilities | 211.5 | — | 1,188.4 | (36.5) | 1,363.4 |
| Long-term debt | 1,398.4 | | 5,333.1 | (1,398.4) | 5,333.1 |
| Asbestos-related liabilities | 628.7 | | | | 628.7 |
| Other non-current liabilities and minority interests | (218.1) | | 1,420.8 | | 1,202.7 |
| Capital structure | 1,003.4 | 1,522.1 | 1,522.1 | (3,044.2) | 1,003.4 |
| Total liabilities and share owners' equity | $ 3,023.9 | $ 1,522.1 | $ 9,464.4 | $ (4,479.1) | $ 9,531.3 |

| Balance Sheet | September 30, 2003 Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Accounts receivable | $ — | $ — | $ 875.8 | $ — | $ 875.8 |
| Inventories | | | 995.4 | | 995.4 |
| Other current assets | 63.0 | | 276.2 | | 339.2 |
| Total current assets | 63.0 | — | 2,147.4 | — | 2,210.4 |
| Investments in and advances to subsidiaries | 3,613.0 | 2,176.5 | | (5,789.5) | — |
| Goodwill | | | 2,858.2 | | 2,858.2 |
| Other non-current assets | 7.2 | | 1,764.3 | | 1,771.5 |
| Total other assets | 3,620.2 | 2,176.5 | 4,622.5 | (5,789.5) | 4,629.7 |
| Property, plant and equipment, net | | | 3,404.0 | | 3,404.0 |
| Total assets | $ 3,683.2 | $ 2,176.5 | $ 10,173.9 | $ (5,789.5) | $ 10,244.1 |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $ — | $ — | $ 1,142.8 | $ — | $ 1,142.8 |
| Current portion of asbestos liability | 180.0 | | | | 180.0 |
| Short-term loans and long-term debt due within one year | | | 78.4 | | 78.4 |
| Total current liabilities | 180.0 | — | 1,221.2 | — | 1,401.2 |
| Long-term debt | 1,436.5 | | 5,424.0 | (1,436.5) | 5,424.0 |
| Asbestos-related liabilities | 215.5 | | | | 215.5 |
| Other non-current liabilities and minority interests | (72.9) | | 1,352.2 | | 1,279.3 |
| Capital structure | 1,924.1 | 2,176.5 | 2,176.5 | (4,353.0) | 1,924.1 |
| Total liabilities and share owners' equity | $ 3,683.2 | $ 2,176.5 | $ 10,173.9 | $ (5,789.5) | $ 10,244.1 |

| Results of Operations | Nine months ended September 30, 2004 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $ — | $ — | $ 4,402.7 | $ — | $ 4,402.7 |
| External interest income | | | 10.2 | | 10.2 |
| Intercompany interest income | 82.2 | 200.0 | | (282.2) | — |
| Equity earnings from subsidiaries | 190.4 | 82.2 | | (272.6) | — |
| Other equity earnings | | | 22.2 | | 22.2 |
| Other revenue | | | 49.8 | | 49.8 |
| Total revenue | 272.6 | 282.2 | 4,484.9 | (554.8) | 4,484.9 |
| Manufacturing, shipping, and delivery | | | 3,543.3 | | 3,543.3 |
| Research, engineering, selling, administrative, and other | | | 321.9 | | 321.9 |
| External interest expense | 82.2 | | 242.2 | | 324.4 |
| Intercompany interest expense | | 82.2 | 82.2 | (164.4) | — |
| Total costs and expense | 82.2 | 82.2 | 4,189.6 | (164.4) | 4,189.6 |
| Earnings from continuing operations before items below | 190.4 | 200.0 | 295.3 | (390.4) | 295.3 |
| Provision for income taxes | | | 82.7 | | 82.7 |
| Minority share owners' interests in earnings of subsidiaries | | | 22.2 | | 22.2 |
| Earnings from continuing operations | 190.4 | 200.0 | 190.4 | (390.4) | 190.4 |
| Net earnings of discontinued operations | 9.6 | | 9.6 | (9.6) | 9.6 |
| Net earnings | $ 200.0 | $ 200.0 | $ 200.0 | $ (400.0) | $ 200.0 |

| Results of Operations | Nine months ended September 30, 2003 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | $ — | $ — | $ 3,711.5 | $ — | $ 3,711.5 |
| External interest income | | | 17.3 | | 17.3 |
| Intercompany interest income | 93.9 | 93.9 | | (187.8) | — |
| Equity earnings from subsidiaries | 62.0 | 80.3 | | (142.3) | — |
| Other equity earnings | | | 20.2 | | 20.2 |
| Other revenue | | | 27.2 | | 27.2 |
| Total revenue | 155.9 | 174.2 | 3,776.2 | (330.1) | 3,776.2 |
| Manufacturing, shipping, and delivery | | | 2,942.8 | | 2,942.8 |
| Research, engineering, selling, administrative, and other | | | 393.1 | | 393.1 |
| External interest expense | 93.9 | | 231.0 | | 324.9 |
| Intercompany interest expense | | 93.9 | 93.9 | (187.8) | — |
| Total costs and expense | 93.9 | 93.9 | 3,660.8 | (187.8) | 3,660.8 |
| Earnings from continuing operations before items below | 62.0 | 80.3 | 115.4 | (142.3) | 115.4 |
| Provision for income taxes | | | 36.7 | | 36.7 |
| Minority share owners' interests in earnings of subsidiaries | | | 16.7 | | 16.7 |
| Earnings from continuing operations | 62.0 | 80.3 | 62.0 | (142.3) | 62.0 |
| Net earnings of discontinued operations | 18.3 | | 18.3 | (18.3) | 18.3 |
| Net earnings | $ 80.3 | $ 80.3 | $ 80.3 | $ (160.6) | $ 80.3 |

| Cash Flows | Nine months ended September 30, 2004 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Cash provided by (used in) operating activities | $ (149.9) | $ — | $ 627.4 | $ — | $ 477.5 |
| Cash used in investing activities | | | (823.0) | | (823.0) |
| Cash provided by financing activities | 149.9 | | 302.0 | | 451.9 |
| Effect of exchange rate change on cash | | | (7.7) | | (7.7) |
| Net change in cash | — | — | 98.7 | — | 98.7 |
| Cash at beginning of period | | | 163.4 | | 163.4 |
| Cash at end of period | $ — | $ — | $ 262.1 | $ — | $ 262.1 |

| Cash Flows | Nine months ended September 30, 2003 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Cash provided by (used in) operating activities | $ (152.2) | $ — | $ 294.5 | $ — | $ 142.3 |
| Cash used in investing activities | | | (137.8) | | (137.8) |
| Cash provided by financing activities | 152.2 | | (139.1) | | 13.1 |
| Effect of exchange rate change on cash | | | 4.3 | | 4.3 |
| Net change in cash | — | — | 21.9 | — | 21.9 |
| Cash at beginning of period | | | 126.4 | | 126.4 |
| Cash at end of period | $ — | $ — | $ 148.3 | $ — | $ 148.3 |

QuickLinks

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OWENS-ILLINOIS, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Tabular data dollars in millions, except share and per share amounts

**Exhibit 99.4**

## BUSINESS

The Company is one of the world's leading manufacturers of packaging products (based on sales revenue) and is the largest manufacturer of glass containers in the world, with leading positions in Europe, North America, Asia Pacific and South America. The Company is also a leading manufacturer of health care packaging including plastic prescription containers and medical devices, and plastic closures including tamper-evident caps and child-resistant closures, with operations in the United States, Mexico, Puerto Rico, Brazil, Hungary and Singapore. The Company, through its subsidiaries, is the successor to a business established in 1903.

For the year ended December 31, 2003, the Company had net sales from continuing operations of approximately $5.0 billion. Net sales from continuing operations for the nine months ended September 30, 2004 were approximately $4.4 billion and included approximately $0.4 billion from the BSN Acquisition. The Company's consolidated total assets were approximately $11.3 billion at September 30, 2004.

### Strategy and Competitive Strengths

The Company is pursuing a strategy aimed at leveraging its global capabilities, broadening its market base and focusing on the effective management of working capital and capital spending.

Our core strategies include the following:

- Improve liquidity and reduce leverage
- Improve system cost and capital capabilities
- Implement global procurement initiatives
- Build modest growth momentum and broaden market base
- Achieve successful European integration

Our core competitive strengths are:

- Global leadership in manufacturing glass containers
- Long-standing relationships with industry-leading consumer products companies
- Low-cost production of glass containers
- Technological leadership and innovation
- Worldwide licensee network—glass containers and plastic closures
- Leading health care packaging businesses
- Experienced and motivated management team

Consistent with its goal to become the world's leading packaging company, the Company has acquired 16 glass container businesses in 21 countries since 1990, including businesses in Europe, North America, Asia Pacific and South America. Through these acquisitions, the Company has enhanced its global presence in order to better serve the needs of its multi-national customers and has achieved purchasing and cost reduction synergies.

**Realignment of Business Portfolio**

In 2004, the Company completed two major transactions which significantly realign its business portfolio:

- On June 21, 2004, the Company completed the BSN Acquisition, for total consideration of approximately $1.3 billion; and
- On October 7, 2004, the Company completed the Plastics Sale for approximately $1.2 billion.

After giving effect to the BSN Acquisition and the Plastics Sale, the Company has 82 glass manufacturing plants in 21 countries and 24 plastics packaging facilities, primarily in the United States.

The Company has two product segments: (1) Glass Containers and (2) Plastics Packaging. Below is a description of these segments and information to the extent material to understanding the Company's business taken as a whole.

**GLASS CONTAINERS PRODUCT SEGMENT**

The Company is the largest manufacturer of glass containers in the world. Approximately one of every two glass containers made worldwide is made by us, our affiliates or our licensees. Worldwide glass container sales represented approximately 87% of the Company's consolidated net sales from continuing operations for the year ended December 31, 2003, on a pro forma basis after giving effect to the BSN Acquisition. We are the leading glass container manufacturer (based on sales revenue) in 19 of the 21 countries where we compete in the glass container segment of the rigid packaging market and the sole manufacturer of glass containers in 8 of these countries.

For the year ended December 31, 2003, the Company manufactured approximately 39% of all glass containers sold by domestic producers in the U.S., making the Company the leading manufacturer of glass containers in the United States.

**Products and Services**

The Company produces glass containers for malt beverages including beer and ready to drink low alcohol refreshers, food, tea, juice, liquor, wine and pharmaceuticals. The Company also produces glass containers for soft drinks, principally outside the U.S. The Company manufactures these products in a wide range of sizes, shapes and colors. As a leader in glass container innovation, the Company is active in new product development.

**Customers**

In most of the countries where the Company competes, it has the leading position in the glass container segment of the rigid packaging market (based on sales revenue). The largest customers include many of the leading manufacturers and marketers of glass packaged products in the world. In the U.S., the majority of customers for glass containers are brewers, food producers, distillers and wine vintners. Outside of the U.S., glass container customers also include soft drink bottlers. The largest U.S. glass container customers include (in alphabetical order) Anheuser-Busch, Campbell, Coors, Gerber, H.J. Heinz and SABMiller. The largest international glass container customers include (in alphabetical order) Diageo, Foster's, Heineken, Kronenbourg, Labatt, Lion Nathan, Molson and SABMiller. The Company is the sole glass container supplier to many of these customers.

The Company sells most of its glass container products directly to customers under annual or multi-year supply agreements. The Company also sells some of its products through distributors. Glass containers are typically scheduled for production in response to customers' orders for their quarterly requirements.

**Markets and Competitive Conditions**

The principal markets for glass container products made by the Company are in Europe, North America, Asia Pacific and South America. The Company believes it is the low-cost producer in the glass container segment of the rigid packaging market in most of the countries in which it competes. Much of this cost advantage is due to proprietary equipment and process technology used by the Company. The Company's machine development activities and systematic upgrading of production equipment in the 1990's and early 2000's have given it low-cost leadership in the glass container segment in most of the countries in which it competes, a key strength to competing successfully in the rigid packaging market.

The Company has the leading share of the glass container segment of the U.S. rigid packaging market based on sales revenue by domestic producers in the U.S., with its sales representing approximately 39% of that segment for the year ended December 31, 2003. The principal glass container competitors in the U.S. are Saint-Gobain Containers, Inc., a wholly-owned subsidiary of Compagnie de Saint-Gobain, and Anchor Glass Container Corporation.

In supplying glass containers outside of the U.S., the Company competes directly with Compagnie de Saint-Gobain in Italy and Brazil, Rexam plc and Ardagh plc in the U.K., Vetropak in the Czech Republic and Amcor Limited in Australia. In other locations in Europe, the Company competes indirectly with a variety of glass container firms including Compagnie de Saint-Gobain, Vetropak and Rexam plc. Except as mentioned above, the Company does not compete with any large, multi-national glass container manufacturers in South America or the Asia Pacific region.

In addition to competing with other large, well-established manufacturers in the glass container segment, the Company competes with manufacturers of other forms of rigid packaging, principally aluminum cans and plastic containers, on the basis of quality, price and service. The principal competitors producing metal containers are Crown Cork & Seal Company, Inc., Rexam plc, Ball Corporation and Silgan Holdings Inc. The principal competitors producing plastic containers are Consolidated Container Holdings, LLC, Graham Packaging Company, Plastipak Packaging, Inc. and Silgan Holdings Inc. The Company also competes with manufacturers of non-rigid packaging alternatives, including flexible pouches and aseptic cartons, in serving the packaging needs of juice customers.

The Company's unit shipments of glass containers in countries outside of the U.S. have grown substantially from levels of the early 1990's. The Company has added to its international operations by acquiring glass container companies, many of which have leading positions in growing or established markets, increasing capacity at select foreign affiliates, and maintaining the global network of glass container companies that license its technology. In many developing countries, the Company's international glass operations have benefited in the last ten years from increased consumer spending power, a trend toward the privatization of industry, a favorable climate for foreign investment, lowering of trade barriers and global expansion programs by multi-national consumer companies. Due to the weighting of labor as a production cost, glass containers have a significant cost advantage over plastic and metal containers in developing countries where labor wage rates are relatively low.

The Company's majority ownership positions in international glass affiliates are summarized below:

| Affiliate/Country | Ownership % |
|---|---|
| ACI Operations Pty. Ltd., Australia | 100.0 |
| ACI Operations New Zealand Ltd., New Zealand | 100.0 |
| Avirunion, a.s., Czech Republic | 100.0 |
| BSN Glasspack S.A., France, Spain, Germany, The Netherlands | 100.0 |
| Karhulan Lasi Oy, Finland | 100.0 |
| OI Canada Corp., Canada | 100.0 |
| United Glass Ltd., United Kingdom | 100.0 |
| United Hungarian Glass Containers, Kft., Hungary | 100.0 |
| Vidrieria Rovira S.A., Spain | 100.0 |
| A/S Jarvakandi Klaas, Estonia | 100.0 |
| PT Kangar Consolidated Industries, Indonesia | 99.9 |
| AVIR S.p.A., Italy | 99.7 |
| Owens-Illinois Polska S.A., Poland | 99.4 |
| Owens-Illinois Peru, S.A., Peru | 96.0 |
| Companhia Industrial Sao Paulo e Rio, Brazil | 79.4 |
| Owens-Illinois de Venezuela, C.A., Venezuela | 74.0 |
| ACI Guangdong Glass Company Ltd., China | 70.0 |
| ACI Shanghai Glass Company Ltd., China | 70.0 |
| Wuhan Owens Glass Container Company Ltd., China | 70.0 |
| Cristaleria del Ecuador S.A., Ecuador | 69.0 |
| Cristaleria Peldar S.A., Colombia | 58.4 |

*North America.* In addition to the glass container operations in the U.S., the Company's affiliate in Canada is the sole manufacturer of glass containers in that country.

*South America.* The Company is the sole manufacturer of glass containers in Colombia, Ecuador and Peru. In both Brazil and Venezuela, the Company is the leading manufacturer of glass containers. In South America, there is a large infrastructure for returnable/refillable glass containers. However, with improving economic conditions in South America after the recessions of the late 1990's, unit sales of non-returnable glass containers have grown in Venezuela, Colombia and Brazil.

*Europe.* The Company's European glass container business has operations in 11 countries and is the largest in Europe. The Company's subsidiary in France is a leading producer of wine and champagne bottles and is the sole supplier of glass containers to Kronenbourg, France's leading brewer. In Italy, the Company's wholly-owned subsidiary, AVIR, is the leading manufacturer of glass containers and operates 13 glass container plants. On a pro forma basis giving effect to the BSN Acquisition, the Company's sales in France and Italy accounted for approximately 52% of the Company's total European glass container sales in 2003. In Germany, the Company's key customers include Jagermeister and Nestle Europe. In the Netherlands, the Company is one of the leading suppliers of glass containers to Heineken. United Glass, the Company's subsidiary in the U.K., is a leading manufacturer of glass containers for the U.K. spirits business. In Spain, the Company serves the market for olives in the Sevilla area and the market for wine bottles in the Barcelona and southern France area. In Poland, the Company is the leading glass container manufacturer and currently operates two plants. The Company's subsidiary in the Czech Republic, Avirunion, is the leading glass container manufacturer in that country and also ships a portion of its beer bottle production to Germany. In Hungary, the Company is the sole glass container manufacturer and serves the Hungarian food industry. In Finland and the Baltic country of Estonia, the Company is the only manufacturer of glass containers. The Company coordinates production activities between Finland and Estonia in order to efficiently serve the Finnish, Baltic and Russian markets. In recent years, Western European brewers have been establishing beer production facilities in Central Europe and the Russian Republic. Because

these new beer plants use high-speed filling lines, they require high quality glass containers in order to operate properly. The Company believes it is well positioned to meet this growing demand.

*Asia Pacific.* The Company has glass operations in four countries in the Asia Pacific region: Australia, New Zealand, Indonesia and China. In the Asia Pacific region, the Company is the leading manufacturer of glass containers in most of the countries in which it competes. In Australia, the Company's subsidiary, ACI, operates four glass container plants, including a plant focused on serving the needs of the growing Australian wine industry. In New Zealand, the Company is the sole glass container manufacturer. In Indonesia, the Company supplies the Indonesian market and exports glass containers for food and pharmaceutical products to Australian customers. In China, the glass container segments of the packaging market are regional and highly fragmented with a number of local competitors. The Company has three modern glass container plants in China manufacturing high-quality beer bottles to serve Foster's as well as Anheuser-Busch, which is now producing Budweiser® in and for the Chinese market.

The Company continues to focus on serving the needs of leading multi-national consumer companies as they pursue international growth opportunities. The Company believes that it is often the glass container partner of choice for such multi-national consumer companies due to its leadership in glass technology and its status as a low-cost producer in most of the markets it serves.

**Manufacturing**

The Company believes it is the low-cost producer in the glass container segment of the North American rigid packaging market, as well as the low-cost producer in most of the international glass segments in which it competes. Much of this cost advantage is due to the Company's proprietary equipment and process technology. The Company believes its glass forming machines, developed and refined by its engineering group, are significantly more efficient and productive than those used by competitors. The Company's machine development activities and systematic upgrading of production equipment in 1990's and early 2000's have given it low-cost leadership in the glass container segment in most of the countries in which it competes, a key strength to competing successfully in the rigid packaging market.

Since the early 1990's, the Company has more than doubled its overall glass container labor and machine productivity in the U.S., as measured by output produced per man-hour. By applying its technology and worldwide "best practices" during this period, the Company decreased the number of production employees required per glass-forming machine line in the U.S. by over 35%, and increased the daily output of glass-forming machines by approximately 40%.

**Methods of Distribution**

Due to the significance of transportation costs and the importance of timely delivery, glass container manufacturing facilities are generally located close to customers. In the U.S., most of the Company's glass container products are shipped by common carrier to customers within a 250-mile radius of a given production site. In addition, the Company's glass container operations outside the U.S. export some products to customers beyond their national boundaries, which may include transportation by rail and ocean delivery in combination with common carriers. The Company also operates several machine and mold shops that manufacture high-productivity glass-forming machines, molds and related equipment.

**Suppliers and Raw Materials**

The primary raw materials used in the Company's glass container operations are sand, soda ash and limestone. Each of these materials, as well as the other raw materials used to manufacture glass containers, have historically been available in adequate supply from multiple sources. For certain raw materials, however, there may be temporary shortages due to weather or other factors, including disruptions in supply caused by raw material transportation or production delays.

### Glass Recycling

The Company is an important contributor to the recycling effort in the U.S. and continues to melt substantial recycled glass tonnage in its glass furnaces. If sufficient high-quality recycled glass were available on a consistent basis, the Company has the technology to operate using 100% recycled glass. Using recycled glass in the manufacturing process reduces energy costs and prolongs the operating life of the glass melting furnaces.

## PLASTICS PACKAGING PRODUCT SEGMENT

The Company is a leading manufacturer in North America of plastic health care containers, plastic closures and plastic prescription containers. The Company also has plastics packaging operations in South America, Europe, Singapore, Australia and New Zealand. On a continuing operations basis, Plastics packaging sales represented 16%, 16% and 18% of the Company's consolidated net sales for the years ended December 31, 2003, 2002 and 2001, respectively.

### Manufacturing and Products

Injection molding is a plastics manufacturing process where plastic resin in the form of pellets or powder is melted and then injected or otherwise forced under pressure into a mold. The mold is then cooled and the product is removed from the mold.

The Company's health care container unit manufactures injection-molded plastic containers for prescription medicines and over-the-counter products. These products are sold primarily to drug wholesalers, major drug chains and mail order pharmacies.

The prescription product unit manufactures injection-molded plastic prescription containers. These products are sold primarily to drug wholesalers, major drug chains and mail order pharmacies. Containers for prescriptions include ovals, vials, closures, ointment jars, dropper bottles and automation friendly prescription containers.

Injection-molding is used in the manufacture of plastic closures, deodorant canisters, ink cartridges and vials. The Company develops and produces injection-molded plastic closures and closure systems, which typically incorporate functional features such as tamper evidence and child resistance or dispensing. Other products include injection-molded containers for deodorant and toothpaste.

Compression-molding, an alternative to injection-molding which has advantages in high volume applications, is used in manufacturing plastic closures for carbonated soft drink and other beverage closures that require tamper evidence.

### Customers

The Company's largest customers (in alphabetical order) for plastic health care containers and prescription containers include AmeriSourceBergen, Cardinal Health, Eckerd Drug, Johnson & Johnson, Merck-Medco, McKesson, Pfizer, Rite-Aid and Walgreen. The Company's largest customers (in alphabetical order) for plastic closures include Coca-Cola Enterprises, Cott Beverages, Graham Packaging, Nestle Waters North America, Pepsico and Procter & Gamble.

The Company sells most plastic health care containers, prescription containers and closures directly to customers under annual or multi-year supply agreements. These supply agreements typically allow a pass-through of resin price increases and decreases, except for the prescription business. The Company also sells some of its products through distributors.

### Markets and Competitive Conditions

Major markets for the Company's plastics packaging include consumer products and health care products.

The Company competes with other manufacturers in the plastics packaging segment on the basis of quality, price, service and product design. The principal competitors producing plastics packaging are

Amcor, Consolidated Container Holdings, LLC, Graham Packaging Company, Plastipak Packaging, Inc. and Silgan Holdings Inc. The Company emphasizes proprietary technology and products, new package development and packaging innovation. The plastic closures segment is divided into various categories in which several suppliers compete for business on the basis of quality, price, service and product design.

In addition to competing with other established manufacturers in the plastics packaging segment, the Company competes with manufacturers of other forms of rigid packaging, principally aluminum cans and glass containers, on the basis of quality, price, and service. The principal competitors producing metal containers are Crown Cork & Seal Company, Inc., Rexam plc, Ball Corporation and Silgan Holdings Inc. The principal competitors producing glass containers in the U.S. are Saint-Gobain Containers, Inc., a wholly-owned subsidiary of Compagnie de Saint-Gobain, and Anchor Glass Container Corporation. The Company also competes with manufacturers of non-rigid packaging alternatives, including blister packs, in serving the packaging needs of health care customers.

**Methods of Distribution**

In the U.S., most of the Company's plastic containers, plastic closures and plastic prescription containers are shipped by common carrier. In addition, the Company's plastics packaging operations outside the U.S. export some products to customers beyond their national boundaries, which may include transportation by rail and ocean delivery in combination with common carriers.

**Suppliers and Raw Materials**

The Company manufactures plastic containers and closures using HDPE, polypropylene, PET and various other plastic resins. The Company also purchases large quantities of batch colorants, corrugated materials and labels. In general, these raw materials are available in adequate supply from multiple sources. However, for certain raw materials, there may be temporary shortages due to market conditions and other factors.

Worldwide suppliers of plastic resins used in the production of plastics packaging include Voridian (formerly Eastman Chemical), Dow Chemical, ExxonMobil, Basell, Chevron Phillips and BP Solvay. Historically, prices for plastic resins have been subject to dramatic fluctuations. However, resin cost pass-through provisions are typical in the Company's supply contracts with its plastics packaging customers.

With the exception of PolyOne, Ampacet and Clariant, each of which does business worldwide, most suppliers of batch colorants are regional in scope. Historically, prices for these raw materials have been subject to dramatic fluctuations. However, cost recovery for batch colorants is included in resin pass-through provisions which are typical of the Company's supply contracts with its plastics packaging customers.

Domestic suppliers of corrugated materials include International Paper, Georgia-Pacific, Weyerhauser, Temple-Inland, and Smurfit-Stone Container. Historically, prices for corrugated materials have not been subject to dramatic fluctuations, except for temporary spikes or troughs from time to time.

**Recycling**

Recycling content legislation, which has been enacted in several states, requires that a certain specified minimum percentage of recycled plastic be included in certain new plastics packaging. The Company has met such legislated standards in part due to its material process technology. In addition, its plastics packaging manufacturing plants also recycle virtually all of the internal scrap generated in the production process.

**Technical Assistance License Agreements**

On a continuing operations basis and after giving effect to the BSN Acquisition, the Company licenses its proprietary glass container technology to 21 companies in 23 countries. In plastics packaging, on a continuing operations basis, the Company has technical assistance agreements with 31 companies in 15 countries. These agreements cover areas ranging from manufacturing and engineering assistance to support in functions such as marketing, sales and administration. The worldwide licensee network provides a stream of revenue to support the Company's development activities and gives it the opportunity to participate in the rigid packaging market in countries where it does not already have a direct presence. In addition, the Company's technical agreements enable it to apply "best practices" developed by its worldwide licensee network. In the years 2003, 2002 and 2001, the Company earned $17.5 million, $17.4 million and $17.1 million, respectively, in royalties and net technical assistance revenue on a continuing operations basis.

**Research and Development**

The Company believes it is a technological leader in the worldwide glass container and plastics packaging segments of the rigid packaging market. Research, development and engineering constitute important parts of the Company's technical activities. On a continuing operations basis, research and development expenditures were $29.9 million, $21.1 million, and $20.1 million for 2003, 2002, and 2001, respectively. On a continuing operations basis, engineering expenditures were $34.7 million, $36.5 million, and $29.1 million for 2003, 2002 and 2001, respectively. The Company's research, development and engineering activities include new products, manufacturing process control, automatic inspection and further automation.

In addition, during the three years ended December 31, 2003, the Company, on a continuing operations basis, invested more than $1.1 billion in capital expenditures (excluding acquisitions) to improve labor and machine productivity and increase capacity in growing markets.

**Environmental and Other Governmental Regulation**

The Company's worldwide operations, in common with those of the industry generally, are subject to extensive laws, ordinances, regulations and other legal requirements relating to environmental protection, including legal requirements governing investigation and clean-up of contaminated properties as well as water discharges, air emissions, waste management and workplace health and safety. Capital expenditures for property, plant and equipment for environmental control activities were not material during 2003.

A number of governmental authorities, both in the U.S. and abroad, have enacted, or are considering, legal requirements that would mandate certain rates of recycling, the use of recycled materials and/or limitations on certain kinds of packaging materials such as plastics. The Company believes that governmental authorities in both the U.S. and abroad will continue to enact and develop such legal requirements.

In North America, sales of non-refillable glass beverage bottles and other convenience packages are affected by mandatory deposit laws and other types of restrictive legislation. As of January 1, 2004, there were 10 U.S. states and 11 Canadian provinces and territories with mandatory deposit laws in effect and an eleventh U.S. state, Hawaii, with a mandatory deposit law enacted but not fully implemented. A number of states and local governments have enacted or are considering legislation to promote curbside recycling and recycled content legislation as alternatives to mandatory deposit laws. Although such legislation is not uniformly developed, the Company believes that states and local governments may continue to enact and develop curbside recycling and recycling content legislation.

Although the Company is unable to predict what environmental legal requirements may be adopted in the future, it has not made, and does not anticipate making, material expenditures with respect to environmental protection. However, the compliance costs associated with environmental legal requirements may result in future additional costs to operations.

**Intellectual Property Rights**

The Company has a large number of patents which relate to a wide variety of products and processes, has a substantial number of patent applications pending, and is licensed under several patents of others. While in the aggregate the Company's patents are of material importance to its businesses, the Company does not consider that any patent or group of patents relating to a particular product or process is of material importance when judged from the standpoint of any segment or its businesses as a whole.

The Company has a number of intellectual property rights, comprised of both patented and proprietary technology, that make the Company's glass forming machines more efficient and productive than those used by our competitors. In addition, the efficiency of the Company's glass forming machines is enhanced by the Company's overall approach to cost efficient manufacturing technology, which extends from batch house to warehouse. This technology is proprietary to the Company through a combination of issued patents, pending applications, copyrights, trade secret and proprietary know-how.

Upstream of the glass forming machine, there is technology to deliver molten glass to the forming machine at high rates of flow and fully conditioned to be homogeneous in consistency, viscosity and temperature for efficient forming into glass containers. The Company has proprietary know-how in (a) the batch house, where raw materials are stored, measured and mixed, (b) the furnace control system and furnace combustion, and (c) the forehearth and feeding system to deliver such homogeneous glass to the forming machines.

In the Company's glass container manufacturing processes, computer control and electro-mechanical mechanisms are commonly used for a wide variety of applications in the forming machines and auxiliary processes. Various patents held by the Company are directed to the electro-mechanical mechanisms and related technologies used to control sections of the machines. Additional U.S. patents and various pending applications are directed to the technology used by the Company for the systems that control the operation of the forming machines and many of the component mechanisms that are embodied in the machine systems.

Downstream of the glass forming machines there is patented and unpatented technology for ware handling, annealing, coating and inspection, which further enhance the overall efficiency of the manufacturing process.

While the above patents and intellectual property rights are representative of the technology used in the Company's glass manufacturing operations, there are numerous other pending patent applications, trade secrets and other proprietary know-how and technology, as supplemented by administrative and operational best practices, which contribute to the Company's competitive advantage. As noted above, however, the Company does not consider that any patent or group of patents relating to a particular product or process is of material importance when judged from the standpoint of any segment or its businesses as a whole.

**Seasonality**

Sales of particular glass container and plastics packaging products such as beer, food and beverage containers and closures for beverages are seasonal. Shipments in the U.S. and Europe are typically greater in the second and third quarters of the year, while shipments in South America and the Asia Pacific region are typically greater in the first and fourth quarters of the year.

**Employees**

On a continuing operations basis and after giving effect to the BSN Acquisition, the Company's worldwide operations employed approximately 30,300 persons as of December 31, 2003.

Approximately 88% of the U.S. employees are hourly workers covered by collective bargaining agreements. The principal collective bargaining agreement, which at December 31, 2003, covered approximately 87% of the Company's union-affiliated employees in the U.S., was extended and ratified

in March 2002 and will expire on March 31, 2005. In addition, a large number of the Company's employees are employed in countries in which employment laws provide greater bargaining or other rights to employees than the laws of the United States. Such employment rights require us to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. The Company considers its employee relations to be good and does not anticipate any material work stoppages in the near term.

## Facilities

The principal manufacturing facilities and other material important physical properties of the continuing operations of the Company, after giving effect to the BSN Acquisition, at December 31, 2003 are listed below. In addition to the properties listed below, the Company leases its World Headquarters Building in Toledo, Ohio, and has corporate facilities at Levis Development Park in Perrysburg, Ohio. All properties shown are owned in fee except where otherwise noted.

**Glass Containers**

| **North American Operations** | **Asia Pacific Operations** | **European Operations** | **European Operations** | **South American Operations** |
|---|---|---|---|---|
| *United States* | *Australia* | *Czech Republic* | *Italy* | *Brazil* |
| *Glass Container Plants* | *Glass Container Plants* | *Glass Container Plants* | *Glass Container Plants* | *Glass Container Plants* |
| Atlanta, GA | Adelaide | Sokolov (Nove Sedlo) | Asti | Rio de Janeiro |
| Auburn, NY | Melbourne | Teplice (Rudolfova Hut) | Pordenone | Sao Paulo |
| Brockway, PA | Brisbane | *Estonia* | Bari (2 plants) | *Machine Shop* |
| Charlotte, MI | Sydney | *Glass Container Plant* | Terni | Manaus |
| Clarion, PA | *Mold Shop* | Jarvakandi | Bologna | *Silica Sand Plant* |
| Crenshaw, PA | Melbourne | *Finland* | Trento (2 plants) | Descalvado |
| Danville, VA | *China* | *Glass Container Plant* | Latina | *Colombia* |
| Lapel, IN | *Glass Container Plants* | Karhula | Treviso | *Glass Container Plants* |
| Los Angeles, CA | Guangdong | *France* | Milano | Envigado |
| Muskogee, OK | Wuhan | *Glass Container Plants* | Varese | Zipaquira |
| Oakland, CA | Shanghai | Béziers | Napoli | Soacha |
| Portland, OR | *Mold Shop* | Vayres | *Mold Shop* | Tableware Plant |
| Streator, IL | Tianjin | Gironcourt | Napoli | Buga |
| Toano, VA | *Indonesia* | Veauche | *Glass Recycling Plant* | *Machine Shop* |
| Tracy, CA | *Glass Container Plant* | Labégude | Alessandria | Cali |
| Waco, TX | Jakarta | VMC Reims | *Netherlands* | *Silica Sand Plant* |
| Winston-Salem, NC | *New Zealand* | Puy-Guillaume | *Glass Container Plants* | Zipaquira |
| Zanesville, OH | *Glass Container Plant* | Wingles | Leerdam | *Ecuador* |
| *Machine Shops* | Auckland | Reims BSN | Schiedam | *Glass Container Plant* |
| Brockway, PA | | *Germany* | Maastricht | Guayaquil |
| Godfrey, IL | | *Glass Container Plants* | *Poland* | *Peru* |
| *Canada* | | Achern | *Glass Container Plants* | *Glass Container Plant* |
| *Glass Container Plants* | | Holzminden | Antoninek | Callao |
| Lavington, British Columbia | | Bernsdorf | Jaroslaw | *Venezuela* |
| Brampton, Ontario | | Stoevesandt | *Spain* | *Glass Container Plants* |
| Montreal, Quebec | | Düsseldorf | *Glass Container Plants* | Valera |
| Scoudouc, New Brunswick | | *Hungary* | Barcelona | Valencia |
| Toronto, Ontario | | *Glass Container Plant* | Alcala (Seville) | |
| | | Oroshaza | *United Kingdom* | |
| | | | *Glass Container Plants* | |
| | | | Alloa | |
| | | | Harlow | |
| | | | *Sand Plant* | |
| | | | Devilla | |
| | | | *Machine Shop* | |
| | | | Birmingham | |

**Plastics Packaging**

| North American Operations | Asia Pacific Operations | European Operations | South American Operations |
|---|---|---|---|
| *United States* | *Australia* | *Hungary* | *Brazil* |
| Berlin, OH(1) | Adelaide | Gyor | Sao Paulo |
| Bowling Green, OH(2) | Melbourne (Moorabbin) | | |
| Hattiesburg, MS | Brisbane (Lytton) | | |
| Brookville, PA | Perth (Bentley) | | |
| Nashua, NH | Berri | | |
| Constantine, MI | Sydney (Blacktown) | | |
| Rocky Mount, NC | *Singapore* | | |
| Erie, PA | Singapore | | |
| Rossville, GA | | | |
| Franklin, IN | | | |
| Sullivan, IN | | | |
| Greenville, SC | | | |
| Washington, NJ (2) | | | |
| Hamlet, NC | | | |
| *Puerto Rico* | | | |
| Las Piedras | | | |

In addition, a glass container plant in Windsor, Colorado is under construction.

(1) This facility is financed in whole or in part under tax-exempt financing agreements.

(2) This facility is leased in whole or in part.

The Company believes that its facilities are well maintained and currently adequate for its planned production requirements over the next three to five years.

## Legal Proceedings

The Company is one of a number of defendants in a substantial number of lawsuits filed in numerous state and federal courts by persons alleging bodily injury (including death) as a result of exposure to dust from asbestos fibers. From 1948 to 1958, one of the Company's former business units commercially produced and sold approximately $40 million of a high-temperature, calcium-silicate based pipe and block insulation material containing asbestos. The Company exited the pipe and block insulation business in April 1958. The traditional asbestos personal injury lawsuits and claims relating to such production and sale of asbestos material typically allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

The following table shows the approximate number of plaintiffs and claimants involved in asbestos claims pending at the beginning of, disposed of and filed during, and pending at the end of, each of the years listed (eliminating duplicate filings):

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Pending at beginning of year | 24,000 | 27,000 | 20,000 |
| Disposed | 21,000 | 24,000 | 24,000 |
| Filed | 26,000 | 21,000 | 31,000 |
| Pending at end of year | 29,000 | 24,000 | 27,000 |

At September 30, 2004, the Company determined that it is a named defendant in asbestos lawsuits and claims involving approximately 35,000 plaintiffs and claimants. Based on an analysis of the claims and lawsuits pending as of December 31, 2003, approximately 92% of the plaintiffs and claimants either do not specify the monetary damages sought or, in the case of court filings, claim an amount sufficient to invoke the jurisdiction of the trial court. Fewer than 4% of the plaintiffs specify the maximum of their damages claim to be between $10 million and $33 million, while approximately 4% of the plaintiffs claim specific damage amounts ranging between $6 million to $122 million. A single suit pending since 1991 involving fewer than 0.1% of the plaintiffs and approximately 60 defendants, claims damages of $11 billion.

As indicated by the foregoing summary, modern pleading practice permits considerable variation in the assertion of monetary damages. This variability, together with the actual experience discussed further below of litigating or resolving through settlement hundreds of thousands of asbestos claims and lawsuits over an extended period, demonstrates that the monetary relief which may be specified in a lawsuit or claim bears little relevance to its merits or disposition value. Rather, the amount potentially recoverable for a specific claimant is determined by other factors such as the claimant's severity of disease, product identification evidence against specific defendants, the defenses available to those defendants, the specific jurisdiction in which the claim is made, the claimant's history of smoking or exposure to other possible disease-causative factors, and the various other matters discussed further below.

In addition to the pending claims set forth above, the Company has claims-handling agreements in place with many plaintiffs' counsel throughout the country. These agreements require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by such agreements. The criteria for such claims include verification of a compensable illness and a reasonable probability of exposure to a product manufactured by the Company's former business unit during its manufacturing period ending in 1958. Some plaintiffs' counsel have historically withheld claims under these agreements for later presentation while focusing their attention on active litigation in the tort system. The Company believes that as of September 30, 2004 there are approximately 21,000 claims against other defendants and which are likely to be asserted some time in the future against the Company. These claims are not included in the totals set forth above. The Company further believes that the bankruptcies of additional co-defendants, as discussed below, resulted in an acceleration of the presentation and disposition of a number of these previously withheld preexisting claims under such agreements, which claims would otherwise have been presented and disposed of over the next several years. This acceleration is reflected in an increased number of pending asbestos claims and, to the extent disposed, contributed to additional asbestos-related payments.

The Company is also a defendant in other asbestos-related lawsuits or claims involving maritime workers, medical monitoring claimants, co-defendants and property damage claimants. Based upon its past experience, the Company believes that these categories of lawsuits and claims will not involve any material liability and they are not included in the above description of pending matters or in the following description of disposed matters.

Since receiving its first asbestos claim, the Company, as of September 30, 2004, has disposed of the asbestos claims of approximately 313,000 plaintiffs and claimants at an average indemnity payment per claim of approximately $6,200. Certain of these dispositions have included deferred amounts payable over periods ranging up to seven years. Deferred amounts payable totaled approximately $88 million at September 30, 2004 ($87 million at December 31, 2003) and are included in the foregoing average indemnity payment per claim. The Company's indemnity payments for these claims have varied on a per claim basis, and are expected to continue to vary considerably over time. As discussed above, a part of the Company's objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Under such agreements, qualification by meeting certain illness and exposure criteria has tended to reduce the number of claims presented to the Company that would ultimately be dismissed or rejected due to the absence of impairment or product exposure evidence. The Company expects that as a result, although aggregate spending may be lower, there may be an increase in the per claim average indemnity payment involved in such resolution.

The Company believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot be estimated with certainty. Beginning with the initial liability of $975 million established in 1993, the Company has accrued a total of $2.7 billion through 2003, before insurance recoveries, for its asbestos-related liability. The Company's ability to reasonably estimate its liability has been significantly affected by the volatility of asbestos-related litigation in the United States, the expanding list of non-traditional defendants that have been sued in

this litigation and found liable for substantial damage awards, the continued use of litigation screenings to generate new lawsuits, the large number of claims asserted or filed by parties who claim prior exposure to asbestos materials but have no present physical impairment as a result of such exposure, and the growing number of co-defendants that have filed for bankruptcy.

The Company has continued to monitor trends which may affect its ultimate liability and has continued to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company expects that the total asbestos-related cash payments will be moderately lower in 2004 compared to 2003 and will continue to decline thereafter as the preexisting but presently unasserted claims withheld under the claims handling agreements are presented to the Company and as the number of potential future claimants continues to decrease. The material components of the Company's accrued liability are based on amounts estimated by the Company in connection with its comprehensive review and consist of the following: (i) the reasonably probable contingent liability for asbestos claims already asserted against the Company, (ii) the contingent liability for preexisting but unasserted asbestos claims for prior periods arising under its administrative claims-handling agreements with various plaintiffs' counsel, (iii) the contingent liability for asbestos claims not yet asserted against the Company, but which the Company believes it is reasonably probable will be asserted in the next several years, to the degree that an estimation as to future claims is possible, and (iv) the legal defense costs likely to be incurred in connection with the foregoing types of claims.

The significant assumptions underlying the material components of the Company's accrual are:

(a) the extent to which settlements are limited to claimants who were exposed to the Company's asbestos-containing insulation prior to its exit from that business in 1958;

(b) the extent to which claims are resolved under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;

(c) the extent of decrease or increase in the inventory of pending serious disease cases;

(d) the extent to which the Company is able to successfully defend itself at trial;

(e) the extent of actions by courts to eliminate, reduce or permit the diversion of financial resources for unimpaired claimants and so-called forum shopping;

(f) the extent to which additional defendants with substantial resources and assets are required to participate significantly in the resolution of future asbestos lawsuits and claims;

(g) the number and timing of co-defendant bankruptcies; and

(h) the extent to which the resolution of co-defendant bankruptcies divert resources to unimpaired claimants.

The Company expects to conduct a comprehensive review of its asbestos-related liabilities and costs in connection with finalizing and reporting its results of operations for the year ended December 31, 2004. If the results of this review indicate that the existing amount of the accrued liability is insufficient to cover its estimated future asbestos-related costs, then the Company will record an appropriate charge to increase the accrued liability. While the results of this review cannot be estimated at this time, the Company expects that an increase of the accrued liability will be required in order to cover estimated indemnity payments and legal fees arising from asbestos personal injury lawsuits and claims filed in the next several years.

The ultimate amount of distributions which may be required to be made by the Company to fund the Company's asbestos-related payments cannot be estimated with certainty. The Company's reported results of operations for 2003 were materially affected by the $450 million fourth-quarter charge and asbestos-related payments continue to be substantial. Any possible future additional charge would

likewise materially affect the Company's results of operations in the period in which it might be recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and will continue to affect the Company's and the Company's cost of borrowing and their ability to pursue global or domestic acquisitions. However, the Company believes that its operating cash flows and other sources of liquidity will be sufficient to fund the Company's asbestos-related payments and to fund the Company's working capital and capital expenditure requirements on a short-term and long-term basis.

In April 1999, Crown Cork & Seal Technologies Corporation ("CCS") filed suit against Continental PET Technologies, Inc. ("CPT"), then a wholly-owned subsidiary of the Company in the United States District Court for the District of Delaware alleging that certain plastic containers manufactured by CPT, primarily multi-layer PET containers with barrier properties, infringe CCS's U.S. Patent 5,021,515 relating to an oxygen scavenging material. In connection with the initial public offering of Constar International Inc. ("Constar"), CCS contributed to Constar the patent involved in the suit against CPT. As a result, Constar was substituted for CCS as the plaintiff in the suit.

In November 2004, the Company finalized a settlement of this litigation. The settlement involves the grant of a license to the Company and to CPT of the technology in dispute, in return for a payment to Constar of $25.1 million, which approximated the amount accrued by the Company for this expected resolution. The Company believes it has meritorious third party reimbursement claims relating to a substantial portion of this settlement and intends to pursue such claims.

On November 15, 2004, a lawsuit was filed against the Company in the Delaware Court of Chancery by a shareholder, Joseph Sitorsky, pursuant to Section 220 of the Delaware General Corporation Law, captioned Sitorsky v. Owens-Illinois, Inc. Mr. Sitorsky seeks an order compelling the Company to produce several categories of documents for his review, generally described in written demands. The categories include documents concerning advisory fees paid to KKR Associates, L.P., the BSN Acquisition, the Plastics Sale, due diligence in connection with the Company's contract with software vendor, Model N, an alleged affiliate of KKR, and executive compensation. The Company believes that Mr. Sitorsky has not made a proper demand under Section 220 or otherwise established a right to compel review of the Company's documents, and the Company intends to defend the action vigorously.

Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief. The ultimate legal and financial liability of the Company in respect to this pending litigation cannot be estimated with certainty. However, the Company believes, based on its examination and review of such matters and experience to date, that such ultimate liability will not have a material adverse effect on its results of operations or financial condition.