

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark one)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarter Ended June 30, 2007

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Owens-Illinois Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other
jurisdiction of
incorporation or
organization)

33-13061
(Commission
File No.)

34-1559348
(IRS Employer
Identification No.)

One Michael Owens Way, Perrysburg, Ohio
(Address of principal executive offices)

43551-2999
(Zip Code)

567-336-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Owens-Illinois Group, Inc. \$.01 par value common stock – 100 shares at July 31, 2007.

Part I – FINANCIAL INFORMATION

Item 1. Financial Statements.

The Condensed Consolidated Financial Statements presented herein are unaudited but, in the opinion of management, reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. All adjustments are of a normal recurring nature. Because the following unaudited condensed consolidated financial statements have been prepared in accordance with Article 10 of Regulation S-X, they do not contain all information and footnotes normally contained in annual consolidated financial statements; accordingly, they should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006.

Certain amounts included in the Condensed Consolidated Statement of Cash Flows for the three and six months ended June 30, 2006 have been reclassified to conform to the 2007 presentation. These amounts, which relate to receipts from customers in payment of accounts receivable in the European accounts receivable securitization program at the date of its consolidation, have been reclassified from operating activities to investing activities. See Note 2 for additional information. While this reclassification had no effect on total cash flows, cash utilized in operating activities and cash provided by investing activities both increased by \$4.5 million for the three months ended June 30, 2006, and \$127.3 million for the six months ended June 30, 2006. Net earnings and share owners' equity were not affected by this reclassification.

On June 11, 2007, the Company announced that it had concluded the strategic review process of its plastics portfolio and entered into a definitive agreement with Rexam PLC to sell its plastics packaging business. As required by Statement of Financial Accounting Standard ("FAS") No. 144, "Accounting for the

Impairment or Disposal of Long-Lived Assets,” the Company has presented the results of operations for the plastics packaging business, which comprised the Company’s former Plastic Packaging segment, in the Condensed Consolidated Results of Operations for the three and six month periods ended June 30, 2007 and 2006 as a discontinued operation. As such, results for those periods have been reclassified to conform to this presentation. At June 30, 2007 and 2006, and December 31, 2006, the assets and liabilities of the plastics packaging business were presented in the Condensed Consolidated Balance Sheet as the assets and liabilities of discontinued operations.

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OWENS-ILLINOIS GROUP, INC.
CONDENSED CONSOLIDATED RESULTS OF OPERATIONS
(Dollars in millions)

	Three months ended June 30,	
	2007	2006
Revenues:		
Net sales	\$ 1,997.0	\$ 1,744.8
Royalties and net technical assistance	4.8	3.6
Equity earnings	8.8	7.4
Interest	5.2	4.8
Other	1.3	3.3
	<u>2,017.1</u>	<u>1,763.9</u>
Costs and expenses:		
Manufacturing, shipping, and delivery	1,567.6	1,430.4
Research and development	1.4	2.7
Engineering	15.1	9.7
Selling and administrative	130.6	125.5
Interest	82.2	92.5
Other	13.6	4.2
	<u>1,810.5</u>	<u>1,665.0</u>
Earnings from continuing operations before items below	206.6	98.9
Provision for income taxes	38.2	38.5
Minority share owners’ interests in earnings of subsidiaries	14.6	9.9
Earnings from continuing operations	<u>153.8</u>	<u>50.5</u>
Net losses of discontinued operations	(4.1)	(7.9)
Net earnings	<u>\$ 149.7</u>	<u>\$ 42.6</u>

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	Six months ended June 30,	
	2007	2006
Revenues:		
Net sales	\$ 3,681.0	\$ 3,233.5
Royalties and net technical assistance	9.7	7.2
Equity earnings	13.9	13.0
Interest	8.6	9.7
Other	4.9	13.6
	<u>3,718.1</u>	<u>3,277.0</u>
Costs and expenses:		
Manufacturing, shipping, and delivery	2,923.8	2,659.9
Research and development	5.3	6.4
Engineering	25.9	18.4
Selling and administrative	257.8	246.7
Interest	163.2	176.0
Other	30.1	10.6
	<u>3,406.1</u>	<u>3,118.0</u>
Earnings from continuing operations before items below	312.0	159.0
Provision for income taxes	76.8	61.9
Minority share owners’ interests in earnings of subsidiaries	26.1	19.0
Earnings from continuing operations	<u>209.1</u>	<u>78.1</u>
Net losses of discontinued operations	(6.2)	(11.2)
Net earnings	<u>\$ 202.9</u>	<u>\$ 66.9</u>

See accompanying notes.

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OWENS-ILLINOIS GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2007	Dec. 31, 2006	June 30, 2006
Assets			
Current assets:			
Cash, including time deposits	\$ 348.4	\$ 222.7	\$ 244.7
Short-term investments, at cost which approximates market	52.8	32.7	71.1
Receivables, less allowances for losses and discounts (\$42.1 at June 30, 2007, \$28.7 at December 31, 2006, and \$27.1 at June 30, 2006)	1,263.8	1,041.1	1,191.2
Inventories	1,001.0	992.1	968.0
Prepaid expenses	46.9	39.3	31.0
Assets of discontinued operations	124.4	104.8	122.5
Total current assets	2,837.3	2,432.7	2,628.5
Investments and other assets:			
Equity investments	95.5	96.3	88.5
Repair parts inventories	136.5	135.3	158.1
Prepaid pension	523.2	488.5	990.8
Deposits, receivables, and other assets	467.7	466.5	419.4
Goodwill	2,324.3	2,255.2	2,223.3
Assets of discontinued operations	591.9	571.7	574.0
Total other assets	4,139.1	4,013.5	4,454.1
Property, plant, and equipment, at cost	6,038.3	5,842.6	5,624.6
Less accumulated depreciation	3,180.9	2,968.1	2,816.8
Net property, plant, and equipment	2,857.4	2,874.5	2,807.8
Total assets	\$ 9,833.8	\$ 9,320.7	\$ 9,890.4

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	June 30, 2007	Dec. 31, 2006	June 30, 2006
Liabilities and Share Owner's Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 746.5	\$ 737.2	\$ 687.4
Accounts payable	845.4	890.2	809.2
Other liabilities	563.1	518.4	531.0
Liabilities of discontinued operations	77.5	70.9	81.9
Total current liabilities	2,232.5	2,216.7	2,109.5
Liabilities of discontinued operations	7.9	1.6	1.5
Long-term debt	4,889.6	4,726.7	4,881.6
Deferred taxes	105.8	111.1	191.7
Pension benefits	336.6	335.0	309.7
Nonpension postretirement benefits	295.3	293.1	282.6
Other liabilities	388.1	385.6	411.4
Minority share owners' interests	221.8	206.6	186.5
Share owner's equity:			
Common stock, par value \$.01 per share 1,000 shares authorized, 100 shares issued and outstanding	—	—	—
Other contributed capital	1,320.7	1,384.7	1,455.6
Retained earnings	456.7	253.8	228.2
Accumulated other comprehensive income	(421.2)	(594.2)	(167.9)
Total share owner's equity	1,356.2	1,044.3	1,515.9
Total liabilities and share owner's equity	\$ 9,833.8	\$ 9,320.7	\$ 9,890.4

See accompanying notes.

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

	Six months ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net earnings	\$ 202.9	\$ 66.9
Net losses of discontinued operations	6.2	11.2
Non-cash charges (credits):		
Depreciation	209.7	214.0

Amortization of intangibles and other deferred items	10.4	11.5
Amortization of finance fees	5.2	2.8
Deferred tax provision	22.8	2.4
Natural gas futures contracts mark to market		5.1
Other	7.9	11.7
Change in non-current operating assets	10.0	(15.3)
Reduction of non-current liabilities	(24.9)	(41.7)
Change in components of working capital	(223.5)	(432.0)
Cash provided by (utilized in) continuing operating activities	226.7	(163.4)
Cash provided by discontinued operating activities	2.8	19.9
Cash flows from investing activities:		
Additions to property, plant, and equipment - continuing	(102.1)	(110.1)
Additions to property, plant, and equipment - discontinued	(23.3)	(14.2)
Collections on receivables arising from consolidation of receivables securitization program		127.3
Acquisitions, net of cash acquired	(9.8)	
Net cash proceeds from divestitures and asset sales	7.5	7.6
Cash provided by (utilized in) investing activities	(127.7)	10.6
Cash flows from financing activities:		
Additions to long-term debt	403.6	916.2
Repayments of long-term debt	(66.9)	(782.8)
Increase in short-term loans	70.0	103.1
Net payments for debt-related hedging activity	(3.9)	(11.6)
Payment of finance fees	(6.6)	(12.3)
Net change in payable to parent	(300.0)	
Distributions to parent	(81.2)	(86.2)
Cash provided by financing activities	15.0	126.4
Effect of exchange rate fluctuations on cash	8.9	4.6
Increase (decrease) in cash	125.7	(1.9)
Cash at beginning of period	222.7	246.6
Cash at end of period	\$ 348.4	\$ 244.7

See accompanying notes.

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OWENS-ILLINOIS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Tabular data dollars in millions

1. Basis of Presentation

The Company is a wholly-owned subsidiary of Owens-Illinois, Inc. ("OI Inc."). Although OI Inc. does not conduct any operations, it has substantial obligations related to outstanding indebtedness, dividends for preferred stock and asbestos-related payments. OI Inc. relies primarily on distributions from its direct and indirect subsidiaries to meet these obligations.

2. Debt

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

	June 30, 2007	Dec. 31, 2006	June 30, 2006
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	\$ —	\$ 45.2	\$ 251.6
Term Loans:			
Term Loan A (292.5 million AUD at June 30, 2007)	248.2	231.5	222.4
Term Loan B	195.5	195.5	50.0
Term Loan C (134.6 million CAD at June 30, 2007)	127.1	115.9	124.4
Term Loan D (€195.5 million at June 30, 2007)	262.9	257.4	254.4
Accounts receivable securitization (included in short-term loans at March 31, 2007 and Dec. 31, 2006):			
European program			181.9
Asia Pacific program			98.4
Senior Secured Notes:			
8.875%, due 2009	850.0	850.0	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:			
8.25%, due 2013	436.3	440.8	411.3
6.75%, due 2014	400.0	400.0	400.0
6.75%, due 2014 (€225 million)	302.5	296.2	286.2
6.875%, due 2017 (€300 million)	403.4		
Senior Subordinated Notes:			
9.25%, due 2009			0.5

Payable to OI Inc.	739.3	1,038.1	1,024.7
Other	103.5	105.5	51.0
Total long-term debt	5,143.7	5,051.1	5,431.8
Less amounts due within one year	254.1	324.4	550.2
Long-term debt	<u>\$ 4,889.6</u>	<u>\$ 4,726.7</u>	<u>\$ 4,881.6</u>

On June 14, 2006, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the "Agreement"). At June 30, 2007, the Agreement included a \$900.0 million revolving credit facility, a 292.5 million Australian dollar term loan, and a 134.6 million Canadian dollar term loan, each of which has a final maturity date of June 15, 2012. It also included a \$195.5 million term loan and a €195.5 million term loan, each of which has a final maturity date of June 14, 2013.

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At June 30, 2007 the Company's subsidiary borrowers had unused credit of \$813.1 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at June 30, 2007 was 6.63%.

During March 2007, a subsidiary of the Company issued Senior Notes totaling €300.0 million. The notes bear interest at 6.875% and are due March 31, 2017. The notes are guaranteed by the Company and substantially all of the Company's domestic subsidiaries. The proceeds were used to retire the \$300 million principal amount of 8.10% Senior Notes which matured in May 2007, and to reduce borrowings under the revolving credit facility.

On July 31, 2007, the Company completed the sale of its plastics packaging business to Rexam PLC for approximately \$1.825 billion in cash. In accordance with an amendment of the Agreement that became effective upon completion of the sale of the plastics business, the Company will use the net proceeds to repay secured debt. In addition, the amendment provides for modification of certain covenants, including the elimination of the financial covenant requiring the Company to maintain a specified interest coverage ratio, and reduces the commitment fee on the revolver and interest margins on \$350 million of term loans.

During the fourth quarter of 2005, the Company expanded the capacity of its European accounts receivable securitization program from €200 million to €320 million to include operations in Italy and the United Kingdom. The terms of this expansion resulted in changing from off-balance sheet to on-balance sheet accounting for the program by consolidating both the accounts receivable in the program and the secured indebtedness of the same amount. Cash inflows related to receipts from customers in payment of the accounts receivable consolidated at December 13, 2005 have been classified as investing cash inflows in the accompanying Consolidated Statement of Cash Flows.

Information related to the Company's accounts receivable securitization program is as follows:

	June 30, 2007	Dec. 31, 2006
Balance (included in short-term loans):		
European program	\$ 365.8	\$ 195.0
Asia Pacific program	81.7	84.4
Weighted average interest rate:		
European program	4.90%	4.81%
Asia Pacific program	7.45%	7.43%

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3. Supplemental Cash Flow Information

	Six months ended June 30,	
	2007	2006
Interest paid in cash	\$ 217.8	\$ 217.8
Income taxes paid in cash	65.4	61.8

4. Comprehensive Income

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

	Three months ended June 30,	
	2007	2006
Net earnings	\$ 149.7	\$ 42.6
Foreign currency translation adjustments	92.5	80.2
Pension and other postretirement benefit adjustments	11.8	
Change in fair value of derivative instruments, net of tax	(4.1)	(9.1)

Total comprehensive income	<u>\$ 249.9</u>	<u>\$ 113.7</u>
	Six months ended June 30,	
	<u>2007</u>	<u>2006</u>
Net earnings	\$ 202.9	\$ 66.9
Foreign currency translation adjustments	128.8	110.5
Pension and other postretirement benefit adjustments	23.6	
Change in fair value of derivative instruments, net of tax	20.6	(42.5)
Total comprehensive income	<u>\$ 375.9</u>	<u>\$ 134.9</u>

For the six months ended June 30, 2007, foreign currency translation adjustments includes a loss of approximately \$5.0 million related to a hedge of the Company's net investment in a non-U.S. subsidiary.

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5. Inventories

Major classes of inventory are as follows:

	<u>June 30, 2007</u>	<u>Dec. 31, 2006</u>	<u>June 30, 2006</u>
Finished goods	\$ 838.2	\$ 824.3	\$ 817.2
Work in process	3.3	7.7	4.4
Raw materials	89.3	92.9	79.4
Operating supplies	70.2	67.2	67.0
	<u>\$1,001.0</u>	<u>\$ 992.1</u>	<u>\$ 968.0</u>

6. Contingencies

OI Inc. 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 OI Inc.'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. OI Inc. 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 June 30, 2007, OI Inc. has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 19,000 plaintiffs and claimants. Based on an analysis of the claims and lawsuits pending as of December 31, 2006, approximately 91% of 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 jurisdictional minimum of the trial court. Approximately 8% of plaintiffs specifically plead damages of \$15 million or less, and 1% of plaintiffs specifically plead damages greater than \$15 million but less than \$100 million. Fewer than 1% of plaintiffs specifically plead damages \$100 million or greater but less than \$123 million.

As indicated by the foregoing summary, current 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, OI Inc. 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 OI Inc.'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. OI Inc. believes that as of June 30,

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2007 there are approximately 16,000 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. OI Inc. 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 resulted in a significant increase in the dispositions and cash payments during the period 2001-2002; however, the resolution of the accumulated yet previously unrepresented cases continues to affect the annual dispositions and cash payments.

OI Inc. 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, OI Inc. 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, OI Inc. as of June 30, 2007, has disposed of the asbestos claims of approximately 350,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$6,600. Certain of these dispositions have included deferred amounts payable over a number of years. Deferred amounts payable totaled approximately \$75.7 million at June 30, 2007 (\$82.6 million at December 31, 2006) and are included in the foregoing average indemnity payment per claim. OI Inc.'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 OI Inc.'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 OI Inc. that would ultimately be dismissed or rejected due to the absence of impairment or product exposure evidence. OI Inc. 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.

OI Inc. 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, OI Inc. has accrued a total of approximately \$3.11 billion through 2006, before insurance recoveries, for its asbestos-related liability. OI Inc.'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.

OI Inc. 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 OI Inc. The material components of OI Inc.'s accrued liability are based on amounts estimated by OI Inc. in connection with its annual comprehensive review and consist of the following: (i) the reasonably probable contingent liability for asbestos claims already asserted against OI Inc., (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

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against OI Inc., but which OI Inc. 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 OI Inc.'s accrual are:

- a) the extent to which settlements are limited to claimants who were exposed to OI Inc.'s asbestos-containing insulation prior to its exit from that business in 1958;
- b) the extent to which claims are resolved under OI Inc.'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 OI Inc. is able to successfully defend itself at trial;
- e) the extent of actions by courts and legislatures 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.

OI Inc. conducts 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 OI Inc. will record an appropriate charge to increase the accrued liability. OI Inc. believes that an estimation of the reasonably probable amount of the contingent liability for claims not yet asserted against OI Inc. is not possible beyond a period of several years. Therefore, while the results of future annual comprehensive reviews cannot be determined, OI Inc. expects the addition of one year to the estimation period will result in an annual charge.

The ultimate amount of distributions which may be required to be made by the Company and other subsidiaries of OI Inc. to fund OI Inc.'s asbestos-related payments cannot be estimated with certainty. OI Inc.'s reported results of operations for 2006 were materially affected by the \$120.0 million fourth quarter charge for asbestos-related costs and asbestos-related payments continue to be substantial. Any future additional charge would likewise materially affect OI Inc.'s results of operations for the period in which it is 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 OI Inc.'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 OI Inc.'s asbestos-related payments and to fund the Company's working capital and capital expenditure requirements on a short-term and long-term basis.

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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. In accordance with Financial Accounting Standard No. 5, "Accounting for Contingencies" ("FAS No. 5"), the Company records a liability for such matters when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. Recorded amounts are reviewed and adjusted to reflect changes in the factors upon which the estimates are based including additional information, negotiations, settlements, and other events. 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. 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, cash flows or financial condition.

7. Segment Information

The Company operates in the rigid packaging industry. The Company has one reportable product segment within the rigid packaging industry, Glass Containers. The Glass Containers segment includes operations in Europe, the Americas, and the Asia Pacific region.

The Company's measure of profit for its reportable segment 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.

Segment Operating Profit for the product segment 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 the product segment. Unallocated corporate expenses and certain other expenses not directly related to the product segment's operations are included in Other Retained Items.

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Financial information for the three month periods ended June 30, 2007 and 2006 regarding the Company's product segment is as follows:

	Glass Containers	Other Retained Items	Consolidated Totals
Net sales:			
2007	\$ 1,997.0		\$ 1,997.0
2006	<u>1,744.8</u>		<u>1,744.8</u>
Segment Operating Profit:			
2007	\$ 316.3	\$ (32.7)	\$ 283.6
2006	<u>220.2</u>	<u>(32.0)</u>	<u>188.2</u>
Items excluded from Segment Operating Profit:			
June 30, 2006:			
Mark to market loss on natural gas hedge contracts	<u>\$ (1.6)</u>		<u>\$ (1.6)</u>

The reconciliation of Segment Operating Profit to earnings before income taxes and minority share owners' interests in earnings of subsidiaries for the three month periods ended June 30, 2007 and 2006 is as follows:

	2007	2006
Segment Operating Profit for the reportable segment	\$ 316.3	\$ 220.2
Items excluded from Segment Operating Profit		(1.6)
Other retained items	(32.7)	(32.0)
Interest expense	(82.2)	(92.5)
Interest income	5.2	4.8
Total	<u>\$ 206.6</u>	<u>\$ 98.9</u>

Financial information for the six month periods ended June 30, 2007 and 2006 regarding the Company's product segment is as follows:

	Glass Containers	Other Retained Items	Consolidated Totals
Net sales:			
2007	\$ 3,681.0		\$ 3,681.0
2006	<u>3,233.5</u>		<u>3,233.5</u>
Segment Operating Profit:			
2007	\$ 533.2	\$ (66.6)	\$ 466.6
2006	<u>386.4</u>	<u>(56.0)</u>	<u>330.4</u>
Items excluded from Segment Operating Profit:			
June 30, 2006:			
Mark to market loss on natural gas hedge contracts	<u>\$ (5.1)</u>		<u>\$ (5.1)</u>

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The reconciliation of Segment Operating Profit to earnings before income taxes and minority share owners' interests in earnings of subsidiaries for the six month periods ended June 30, 2007 and 2006 is as follows:

	2007	2006
Segment Operating Profit for the reportable segment	\$ 533.2	\$ 386.4
Items excluded from Segment Operating Profit		(5.1)
Other retained items	(66.6)	(56.0)
Interest expense	(163.2)	(176.0)
Interest income	8.6	9.7
Total	<u>\$ 312.0</u>	<u>\$ 159.0</u>

Information regarding total assets by segment is as follows:

	Glass Containers	Other Retained Items	Consolidated Totals
Total assets (1):			
June 30, 2007	\$ 8,436.6	\$ 1,397.2	\$ 9,833.8
December 31, 2006	8,021.6	1,299.1	9,320.7
June 30, 2006	<u>8,004.2</u>	<u>1,886.2</u>	<u>9,890.4</u>

(1) Assets of discontinued operations are included in other retained items.

8. Derivative Instruments

At June 30, 2007, the Company had the following derivative instruments related to its various hedging programs:

Hedges of Debt

Certain of the Company's subsidiaries have entered into short term forward exchange contracts which effectively swap intercompany loans to other subsidiaries that are denominated in the functional currency of the borrowers. These contracts swap the principal amount of loans and in some cases they swap the related interest.

The Company recognizes the above derivatives on the balance sheet at fair value. 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 nonfunctional currency loans. For the three and six months ended June 30, 2007, the amount not offset was not material.

Interest Rate Swaps Designated as Fair Value Hedges

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 \$750 million 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, 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 during each six-month period over the term of the agreement.

The following selected information relates to fair value swaps at June 30, 2007:

	Amount Hedged	Receive Rate	Average Spread	Liability Recorded
OI Inc. public notes swapped by the Company through intercompany loans:				
Senior Notes due 2008	250.0	7.35%	3.5%	(3.3)
Senior Debentures due 2010	250.0	7.50%	3.2%	(7.4)
Notes issued by a subsidiary of the Company:				
Senior Notes due 2013	250.0	8.25%	3.7%	(13.8)
Total	<u>\$ 750.0</u>			<u>\$ (24.5)</u>

Commodity Hedges

The Company enters into commodity futures contracts related to forecasted natural gas requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. The Company continually evaluates the natural gas market with respect to its forecasted usage requirements over the next twelve to twenty-four months and periodically enters into commodity futures contracts in order to hedge a portion of its usage requirements over that period. At June 30, 2007, the Company had entered into commodity futures contracts for approximately

60% (approximately 7,040,000 MM BTUs) of its estimated usage requirements for the remaining half of 2007 and approximately 19% (approximately 4,310,000 MM BTUs) for the full year of 2008.

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 the Accumulated Other Comprehensive Income component of share owners' equity ("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 June 30, 2007.

At June 30, 2007, an unrecognized loss of \$14.3 million (pretax and after tax), related to the domestic commodity futures contracts, was included in OCI, which will be reclassified into earnings over the next twelve months. The ineffectiveness related to these natural gas hedges for the three and six months ended June 30, 2007 was not material.

Other Hedges

The Company's subsidiaries may enter into short-term forward exchange or option agreements to purchase foreign currencies at set rates in the future. These agreements are used to limit exposure to fluctuations in foreign currency exchange rates for significant planned purchases of fixed assets or commodities that are denominated in currencies 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 currencies. 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.

Balance Sheet Classification

The Company records the fair values of derivative financial instruments on the balance sheet as follows: (1) receivables if the instrument has a positive fair value and maturity within one year, (2) deposits, receivables, and other assets if the instrument has a positive fair value and maturity after one year, (3) accounts payable and other accrued liabilities if the instrument has a negative fair value and maturity within one year, and (4) other liabilities if the instrument has a negative fair value and maturity after one year.

9. Restructuring Accruals

In September 2006, the Company announced the permanent closing of its Godfrey, Illinois machine parts manufacturing operation. The facility was closed by the end of 2006. This closing is part of a broad initiative to reduce working capital and improve system costs. The Company also closed a small recycling facility in Ohio. As a result of these actions, the Company recorded a charge of \$29.7 million (\$27.7 million after tax) in other costs and expenses in the third quarter of 2006.

The closing of these facilities resulted in the elimination of approximately 260 jobs and a corresponding reduction in the Company's workforce. The Company anticipates that it will pay out approximately \$14.5 million in cash related to insurance, 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 2008.

Selected information related to the plant closing accrual is as follows:

Plant closing charges	\$ 29.7
Write-down of assets to net realizable value	(11.7)
Recognition of employee separation benefits	(7.1)
Net cash paid	(2.2)
Other	0.7
Remaining plant closing accrual as of December 31, 2006	9.4
Net cash paid	(2.4)
Additional charge	3.0
Remaining plant closing accrual as of March 31, 2007	10.0
Net cash paid	(2.1)
Remaining plant closing accrual as of June 30, 2007	<u>\$ 7.9</u>

During the second quarter of 2005, the Company concluded its evaluation of acquired capacity in connection with the acquisition of BSN Glasspack S.A. and announced the permanent closing of its Düsseldorf, Germany glass container factory, and the shutdown of a furnace at its Reims, France glass container facility, both in 2005. These actions were part of the European integration strategy to optimally align the manufacturing capacities with the market and improve operational efficiencies. As a result, the Company recorded an accrual of €47.1 million through an adjustment to goodwill.

These actions resulted in the elimination of approximately 400 jobs and a corresponding reduction in the Company's workforce. The Company anticipates that it will pay a total of approximately €110.9 million in cash related to severance, benefits, plant clean-up, and other plant closing costs related to restructuring accruals. In addition, the Company expects to pay a total of approximately €65 million for other European reorganization and integration activities, approximately 60% of which will be expensed. Approximately 70% of these payments were made by the end of 2006 and the Company expects that most of the balance will be paid by the end of 2007.

The European restructuring accrual recorded in the second quarter of 2005 was in addition to the initial estimated accrual of €63.8 million recorded in 2004. Selected information related to the restructuring accrual is as follows, with 2007 activity translated from Euros into dollars at the June 30, 2007 exchange rate:

Total European restructuring accrual (€110.9 million)	\$ 134.1
Net cash paid, principally severance and related benefits	(41.0)
Other, principally translation	(12.2)
Remaining European restructuring accrual as of December 31, 2005	80.9
Net cash paid, principally severance and related benefits	(33.7)
Partial reversal of accrual (goodwill adjustment)	(7.6)
Other, principally translation	(1.5)
Remaining European restructuring accrual as of December 31, 2006	38.1
Net cash paid, principally severance and related benefits	(7.9)
Other, principally translation	0.5
Remaining European restructuring accrual as of March 31, 2007	30.7
Net cash paid, principally severance and related benefits	(2.7)
Other, principally translation	0.6
Remaining European restructuring accrual as of June 30, 2007	<u>\$ 28.6</u>

10. Pensions

The components of the net periodic pension (income) cost for the three months ended June 30, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Service cost	\$ 14.2	\$ 16.8
Interest cost	53.0	51.3
Expected asset return	(78.7)	(74.5)
Amortization:		
Loss	11.5	15.1
Prior service credit	(0.2)	—
Net amortization	11.3	15.1
Net periodic pension (income) cost	<u>\$ (0.2)</u>	<u>\$ 8.7</u>
Total for continuing operations	0.4	8.6
Total for discontinued operations	(0.6)	0.1
	<u>\$ (0.2)</u>	<u>\$ 8.7</u>

The components of the net periodic pension (income) cost for the six months ended June 30, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Service cost	\$ 28.1	\$ 33.2
Interest cost	105.3	101.8
Expected asset return	(156.7)	(148.0)
Amortization:		
Loss	23.0	29.9
Prior service credit	(0.4)	—
Net amortization	22.6	29.9
Net periodic pension (income) cost	<u>\$ (0.7)</u>	<u>\$ 16.9</u>
Total for continuing operations	0.6	16.6
Total for discontinued operations	(1.3)	0.3
	<u>\$ (0.7)</u>	<u>\$ 16.9</u>

11. Postretirement Benefits Other Than Pensions

The components of the net postretirement benefit cost for the three months ended June 30, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Service cost	\$ 0.9	\$ 1.2
Interest cost	4.4	4.4
Amortization:		
Prior service credit	(1.1)	(1.0)
Loss	1.6	1.2
Net amortization	0.5	0.2
Net postretirement benefit cost	<u>\$ 5.8</u>	<u>\$ 5.8</u>
Total for continuing operations	5.0	5.1

Total for discontinued operations	0.8	0.7
	<u>\$ 5.8</u>	<u>\$ 5.8</u>

The components of the net postretirement benefit cost for the six months ended June 30, 2007 and 2006 were as follows:

	2007	2006
Service cost	\$ 1.7	\$ 2.4
Interest cost	8.7	8.8
Amortization:		
Prior service credit	(2.1)	(2.1)
Loss	3.2	2.4
Net amortization	<u>1.1</u>	<u>0.3</u>
Net postretirement benefit cost	<u>\$ 11.5</u>	<u>\$ 11.5</u>
Total for continuing operations	10.0	10.1
Total for discontinued operations	1.5	1.4
	<u>\$ 11.5</u>	<u>\$ 11.5</u>

12. New Accounting Standards

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 157 “Fair Value Measurements” (“FAS No. 157”). FAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. FAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. The statement does not require any new fair value measurements. The statement is effective for fiscal years beginning after November 15, 2007. Adoption of FAS No. 157 is not expected to have a material impact on the Company’s results of operations or financial position.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115” (“FAS No. 159”). FAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The statement is effective for fiscal years beginning after November 15, 2007. Adoption of FAS No. 159 is not expected to have a material impact on the Company’s results of operations or financial position.

13. Adoption of FIN 48

The Company adopted FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes”, (“FIN 48”), as of January, 1, 2007. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FAS No. 109, “Accounting for Income Taxes”. FIN 48 defines criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise’s financial statements and also includes requirements for measuring the amount of the benefit to be recognized in the financial statements. As a result of the implementation of FIN 48, the Company recognized no adjustment in the liability for unrecognized income tax benefits. The Company reclassified \$8.9 million of deferred tax assets related to United States general business credits that were previously offset by a full valuation allowance to the liability for unrecognized income tax benefits. This balance sheet reclassification had no effect on share owners’ equity.

Information about the Company’s unrecognized income tax benefits is as follows:

	Balance Dec. 31, 2006	2007 Changes	Balance June 30, 2007
Unrecognized income tax benefits that affect effective tax rate upon recognition	\$ 18.9	\$ 3.4	\$ 22.3
Unrecognized income tax benefits that do not affect tax rate or are offset by valuation allowances	25.0	—	25.0
Interest	3.1	1.8	4.9
Penalties	—	—	—
Total unrecognized income tax benefits	<u>\$ 47.0</u>	<u>\$ 5.2</u>	<u>\$ 52.2</u>

The \$5.2 million increase recorded for the six month period ended June 30, 2007 is related to a number of changes in estimated unrecognized tax benefits in various tax jurisdictions none of which is individually material. In connection with adopting FIN 48, the Company is maintaining its historical method of accruing interest (net of related tax benefits) and penalties associated with unrecognized income tax benefits as a component of its income tax expense.

The Company files a US federal income tax return as well as income tax returns in multiple state and non-U.S. jurisdictions. Tax years through 1999 have been settled with the U.S. Internal Revenue Service and there is no current IRS examination in progress. Due to the existence of tax attribute carryforwards (which are currently offset by full valuation allowances) in the U.S., the Company treats certain post-1999 tax positions as unsettled because of the taxing authorities’ ability to modify these attributes. The 2000 tax year is the earliest open year for the Company’s other major tax jurisdictions.

No changes in settled tax years have occurred from December 31, 2006 to June 30, 2007.

The Company does not anticipate a significant change in the total amount of unrecognized income tax benefits within the next twelve months.

14. Discontinued Operations

On June 11, 2007, the Company announced that it had concluded the strategic review process of its plastics portfolio and entered into a definitive agreement with Rexam PLC to sell its plastics packaging business. On July 31, 2007, the Company completed the sale for approximately \$1.825 billion in cash.

Included in the sale were 19 plastics manufacturing plants in the U.S. (including Puerto Rico), Mexico, Brazil, Hungary, Singapore and Malaysia. The plastics packaging business is comprised of HealthCare Packaging and Closure & Specialty Products which design, manufacture and sell plastic packaging solutions for companies in the pharmaceutical, healthcare, food and beverage, personal care, household and automotive industries. The plastics packaging business comprised the Company's former Plastics Packaging segment.

As required by FAS No. 144, the Company has presented the results of operations for the plastics packaging business in the Condensed Consolidated Results of Operations for the three and six month periods ended June 30, 2007 and 2006 as discontinued operations. Interest expense was allocated to the discontinued operations based on debt that was required by an amendment to the Agreement to be repaid from the net proceeds. Amounts for the prior periods

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have been reclassified to conform to this presentation. At June 30, 2007 and 2006, and December 31, 2006, the assets and liabilities of the plastics packaging 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 operations for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
Net sales	\$ 200.9	\$ 200.7	\$ 389.2	\$ 400.3
Other revenue (expense), net	(0.1)	1.0	(0.1)	1.4
	<u>200.8</u>	<u>201.7</u>	<u>389.1</u>	<u>401.7</u>
Costs and expenses:				
Manufacturing, shipping and delivery	153.2	155.2	297.5	310.7
Research, development and engineering	3.4	3.9	7.2	7.7
Selling and administrative	8.7	9.1	16.9	17.2
Interest	34.4	37.9	68.3	73.8
Other	1.9	4.8	2.3	4.9
	<u>201.6</u>	<u>210.9</u>	<u>392.2</u>	<u>414.3</u>
Losses before items below	(0.8)	(9.2)	(3.1)	(12.6)
Provision for income taxes	3.2	(1.3)	3.0	(1.4)
Minority share owners' interests in earnings of subsidiaries	0.1		0.1	
Net losses from discontinued operations	<u>\$ (4.1)</u>	<u>\$ (7.9)</u>	<u>\$ (6.2)</u>	<u>\$ (11.2)</u>

The condensed consolidated balance sheet at June 30, 2007, December 31, 2006, and June 30, 2006 included the following assets and liabilities related to the discontinued operations:

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	Balance at June 30, 2007	Balance at December 31, 2006	Balance at June 30, 2006
Assets:			
Inventories	\$ 50.3	\$ 46.9	\$ 49.3
Accounts receivable	72.0	56.7	71.3
Other current assets	2.1	1.2	1.9
Total current assets	<u>124.4</u>	<u>104.8</u>	<u>122.5</u>
Goodwill	215.5	209.5	209.5
Other long-term assets	46.3	43.0	46.0
Net property, plant and equipment	330.1	319.2	318.5
Total assets	<u>\$ 716.3</u>	<u>\$ 676.5</u>	<u>\$ 696.5</u>
Liabilities:			
Accounts payable and other current liabilities	\$ 77.5	\$ 70.9	\$ 81.9
Other long-term liabilities	7.9	1.6	1.5
Total liabilities	<u>\$ 85.4</u>	<u>\$ 72.5</u>	<u>\$ 83.4</u>

15. Financial Information for Subsidiary Guarantors and Non-Guarantors

The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois Group, Inc. (the "Parent"); (2) Owens-Brockway Glass Container Inc. (the "Issuer"); (3) those domestic subsidiaries that guarantee the Senior Notes and Senior Secured Notes of the Issuer (the "Guarantor Subsidiaries"); and (4) all other subsidiaries (the "Non-Guarantor Subsidiaries"). The Guarantor Subsidiaries are 100% owned direct and indirect subsidiaries of the Parent and their guarantees are full, unconditional and joint and several. The Parent is also a guarantor, and its guarantee is full, unconditional and joint and several.

Subsidiaries of the Parent and of the Issuer 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 intercompany balances and transactions.

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Balance Sheet	June 30, 2007					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:						
Accounts receivable	\$ —	\$ 126.4	\$ 32.3	\$ 1,105.1	\$ —	\$ 1,263.8
Inventories		157.0	0.4	843.6	—	1,001.0
Other current assets		22.4	22.2	403.5		448.1
Assets of discontinued operations			107.1	17.3		124.4
Total current assets	—	305.8	162.0	2,369.5	—	2,837.3
Investments in and advances to subsidiaries	2,106.2	3,152.5	36.2		(5,294.9)	—
Goodwill		561.0	17.8	1,745.5		2,324.3
Other non-current assets		158.8	577.5	491.4	(4.8)	1,222.9
Assets of discontinued operations			525.5	66.4		591.9
Total other assets	2,106.2	3,872.3	1,157.0	2,303.3	(5,299.7)	4,139.1
Property, plant and equipment, net		656.0	47.7	2,153.7		2,857.4
Total assets	\$ 2,106.2	\$ 4,834.1	\$ 1,366.7	\$ 6,826.5	\$ (5,299.7)	\$ 9,833.8
Current liabilities :						
Accounts payable and accrued liabilities	\$ —	\$ 351.6	\$ 62.9	\$ 1,006.6	\$ (12.6)	\$ 1,408.5
Short-term loans and long-term debt due within one year	250.0	(3.3)		499.8		746.5
Liabilities of discontinued operations			67.6	9.9		77.5
Total current liabilities	250.0	348.3	130.5	1,516.3	(12.6)	2,232.5
Liabilities of discontinued operations			0.1	7.8		7.9
Long-term debt	500.0	3,252.0	19.7	1,117.9		4,889.6
Other non-current liabilities and minority interests		48.7	295.3	1,002.1	1.5	1,347.6
Investments by and advances from parent		1,185.1	921.1	3,182.4	(5,288.6)	—
Share owner's equity	1,356.2					1,356.2
Total liabilities and share owner's equity	\$ 2,106.2	\$ 4,834.1	\$ 1,366.7	\$ 6,826.5	\$ (5,299.7)	\$ 9,833.8

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Balance Sheet	December 31, 2006					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:						
Accounts receivable	\$ —	\$ 78.3	\$ 4.6	\$ 958.2	\$ —	\$ 1,041.1
Inventories		150.9	1.6	839.6		992.1
Other current assets		17.7	7.0	270.0		294.7
Assets of discontinued operations			93.0	11.8		104.8
Total current assets	—	246.9	106.2	2,079.6	—	2,432.7
Investments in and ad-vances to subsidiaries	2,094.3	3,367.1	2.3		(5,463.7)	—
Goodwill		562.1	13.9	1,679.2		2,255.2
Other non-current assets		188.1	530.0	474.8	(6.3)	1,186.6
Assets of discontinued operations			521.6	50.1		571.7
Total other assets	2,094.3	4,117.3	1,067.8	2,204.1	(5,470.0)	4,013.5
Property, plant and equipment, net		667.3	47.8	2,159.4		2,874.5
Total assets	\$ 2,094.3	\$ 5,031.5	\$ 1,221.8	\$ 6,443.1	\$ (5,470.0)	\$ 9,320.7
Current liabilities :						
Accounts payable and accrued liabilities	\$ —	\$ 383.2	\$ 52.9	\$ 973.3	\$ (0.8)	\$ 1,408.6
Short-term loans and long-term debt due within one year	300.0	(1.7)		438.9		737.2
Liabilities of discontinued operations			65.5	5.4		70.9

Total current liabilities	300.0	381.5	118.4	1,417.6	(0.8)	2,216.7
Liabilities of discontinued operations			0.1	1.5		1.6
Long-term debt	750.0	3,291.3	20.1	665.3		4,726.7
Other non-current liabilities and minority interests		75.9	271.7	976.8	7.0	1,331.4
Investments by and ad-vances from parent		1,282.8	811.5	3,381.9	(5,476.2)	—
Share owner's equity	1,044.3					1,044.3
Total liabilities and share owner's equity	\$ 2,094.3	\$ 5,031.5	\$ 1,221.8	\$ 6,443.1	\$ (5,470.0)	\$ 9,320.7

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June 30, 2006						
Balance Sheet	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:						
Accounts receivable	\$ —	\$ 106.4	\$ 21.0	\$ 1,063.8	\$ —	\$ 1,191.2
Inventories		125.9	1.3	840.8	—	968.0
Other current assets		7.8	32.0	307.0		346.8
Assets of discontinued operations			109.3	13.2		122.5
Total current assets	—	240.1	163.6	2,224.8	—	2,628.5
Investments in and advances to subsidiaries	2,565.9	3,166.8	(0.7)		(5,732.0)	—
Goodwill		562.1	13.9	1,647.3		2,223.3
Other non-current assets		192.9	1,063.3	407.7	(7.1)	1,656.8
Assets of discontinued operations			522.0	52.0		574.0
Total other assets	2,565.9	3,921.8	1,598.5	2,107.0	(5,739.1)	4,454.1
Property, plant and equipment, net		681.4	38.6	2,087.8		2,807.8
Total assets	\$ 2,565.9	\$ 4,843.3	\$ 1,800.7	\$ 6,419.6	\$ (5,739.1)	\$ 9,890.4
Current liabilities :						
Accounts payable and accrued liabilities	\$ —	\$ 339.0	\$ 43.9	\$ 967.6	\$ (10.3)	\$ 1,340.2
Short-term loans and long-term debt due within one year	300.0	(3.8)		391.2		687.4
Liabilities of discontinued operations			72.3	9.6		81.9
Total current liabilities	300.0	335.2	116.2	1,368.4	(10.3)	2,109.5
Liabilities of discontinued operations			0.1	1.4		1.5
Long-term debt	750.0	3,256.4	15.9	859.3		4,881.6
Other non-current liabilities and minority interests		103.9	250.4	1,021.7	5.9	1,381.9
Investments by and advances from parent		1,147.8	1,418.1	3,168.8	(5,734.7)	—
Share owner's equity	1,515.9					1,515.9
Total liabilities and share owner's equity	\$ 2,565.9	\$ 4,843.3	\$ 1,800.7	\$ 6,419.6	\$ (5,739.1)	\$ 9,890.4

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Three months ended June 30, 2007						
Results of Operations	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 541.3	\$ 0.5	\$ 1,477.2	\$ (22.0)	\$ 1,997.0
Interest		—	0.5	4.7		5.2
Equity earnings from subsidiaries	153.8	123.6	31.1		(308.5)	—
Other equity earnings		1.5	4.8	2.5		8.8
Other revenue		61.8	0.4	1.7	(57.8)	6.1
Total revenue	153.8	728.2	37.3	1,486.1	(388.3)	2,017.1
Manufacturing, shipping, and delivery		440.1	(2.0)	1,164.6	(35.1)	1,567.6
Research, engineering, selling, administrative, and other		23.6	36.8	100.5	(0.2)	160.7
Net intercompany interest	(17.5)	(6.6)	26.9	(2.8)		—
Other interest expense	17.5	72.5	(34.0)	26.2		82.2
Total costs and expense	—	529.6	27.7	1,288.5	(35.3)	1,810.5
Earnings from continuing operations before items below	153.8	198.6	9.6	197.6	(353.0)	206.6
Provision (credit) for income taxes		12.8	(6.9)	32.3		38.2
Minority share owners' interests in earnings of subsidiaries			0.8	10.7	3.1	14.6
Earnings from continuing operations	153.8	185.8	15.7	154.6	(356.1)	153.8
Net earnings of discontinued operations	(4.1)		(4.2)	0.1	4.1	(4.1)

Net earnings	\$ 149.7	\$ 185.8	\$ 11.5	\$ 154.7	\$ (352.0)	\$ 149.7
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Results of Operations	Three months ended June 30, 2006					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 492.4	\$ (0.7)	\$ 1,277.1	\$ (24.0)	\$ 1,744.8
Interest		—	0.3	4.5		4.8
Equity earnings from subsidiaries	34.7	72.2	13.8		(120.7)	—
Other equity earnings		2.9	2.7	1.8		7.4
Other revenue		13.8	3.1	5.4	(15.4)	6.9
Total revenue	34.7	581.3	19.2	1,288.8	(160.1)	1,763.9
Manufacturing, shipping, and delivery		426.2	2.2	1,036.8	(34.8)	1,430.4
Research, engineering, selling, administrative, and other		27.2	31.5	83.4		142.1
Net intercompany interest	(20.6)	(9.6)	20.6	9.6		—
Other interest expense	20.6	82.9	(37.6)	26.6		92.5
Total costs and expense	—	526.7	16.7	1,156.4	(34.8)	1,665.0
Earnings from continuing operations before items below	34.7	54.6	2.5	132.4	(125.3)	98.9
Provision (credit) for income taxes		(4.3)	9.0	33.1	0.7	38.5
Minority share owners' interests in earnings of subsidiaries				8.9	1.0	9.9
Earnings from continuing operations	34.7	58.9	(6.5)	90.4	(127.0)	50.5
Net earnings of discontinued operations	(7.9)		(3.5)	(4.4)	7.9	(7.9)
Net earnings	\$ 26.8	\$ 58.9	\$ (10.0)	\$ 86.0	\$ (119.1)	\$ 42.6

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Results of Operations	Six months ended June 30, 2007					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 1,000.3	\$ 0.8	\$ 2,729.1	\$ (49.2)	\$ 3,681.0
Interest		—	1.0	7.6		8.6
Equity earnings from subsidiaries	209.1	202.9	37.1		(449.1)	—
Other equity earnings		3.7	6.0	4.2		13.9
Other revenue		77.1	0.8	5.0	(68.3)	14.6
Total revenue	209.1	1,284.0	45.7	2,745.9	(566.6)	3,718.1
Manufacturing, shipping, and delivery		830.3	1.2	2,166.6	(74.3)	2,923.8
Research, engineering, selling, administrative, and other		51.0	68.4	199.9	(0.2)	319.1
Net intercompany interest	(38.1)	(14.7)	52.1	0.7		0.0
Other interest expense	38.1	146.8	(67.5)	45.8		163.2
Total costs and expense	—	1,013.4	54.2	2,413.0	(74.5)	3,406.1
Earnings from continuing operations before items below	209.1	270.6	(8.5)	332.9	(492.1)	312.0
Provision (credit) for income taxes		5.4	(0.3)	71.7		76.8
Minority share owners' interests in earnings of subsidiaries			0.8	20.9	4.4	26.1
Earnings from continuing operations	209.1	265.2	(9.0)	240.3	(496.5)	209.1
Net earnings of discontinued operations	(6.2)		(5.9)	(0.3)	6.2	(6.2)
Net earnings	\$ 202.9	\$ 265.2	\$ (14.9)	\$ 240.0	\$ (490.3)	\$ 202.9

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Results of Operations	Six months ended June 30, 2006					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 948.3	\$ (2.2)	\$ 2,334.0	\$ (46.6)	\$ 3,233.5
Interest		—	1.2	8.5		9.7

Equity earnings from subsidiaries	78.1	133.9	2.7		(214.7)	—
Other equity earnings		5.4	4.7	2.9		13.0
Other revenue		27.3	10.4	9.0	(25.9)	20.8
Total revenue	78.1	1,114.9	16.8	2,354.4	(287.2)	3,277.0
Manufacturing, shipping, and delivery		824.4	(1.4)	1,905.4	(68.5)	2,659.9
Research, engineering, selling, administrative, and other		56.7	64.7	160.7		282.1
Net intercompany interest	(41.2)	(18.8)	40.4	19.6		—
Other interest expense	41.2	158.6	(73.2)	49.4		176.0
Total costs and expense	—	1,020.9	30.5	2,135.1	(68.5)	3,118.0
Earnings from continuing operations before items below	78.1	94.0	(13.7)	219.3	(218.7)	159.0
Provision (credit) for income taxes		0.2	1.1	60.6		61.9
Minority share owners' interests in earnings of subsidiaries				18.2	0.8	19.0
Earnings from continuing operations	78.1	93.8	(14.8)	140.5	(219.5)	78.1
Net earnings of discontinued operations	(11.2)		(7.3)	(3.9)	11.2	(11.2)
Net earnings	\$ 66.9	\$ 93.8	\$ (22.1)	\$ 136.6	\$ (208.3)	\$ 66.9

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Cash Flows	Six months ended June 30, 2007					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ —	\$ 24.1	\$ (53.8)	\$ 312.7	\$ (53.5)	\$ 229.5
Investing Activities:						
Additions to property, plant, and equipment - continuing operations		(31.4)	(2.8)	(67.9)		(102.1)
Additions to property, plant, and equipment - discontinued operations			(21.6)	(1.7)		(23.3)
Acquisition, net of cash acquired				(9.8)		(9.8)
Proceeds from sales		5.5	0.9	1.1		7.5
Cash used in investing activities	—	(25.9)	(23.5)	(78.3)	—	(127.7)
Financing Activities:						
Net distribution to OI Inc.	(381.2)					(381.2)
Change in intercompany transactions	381.2	45.8	96.8	(577.3)	53.5	—
Change in short term debt				70.0		70.0
Payments of long term debt		(44.0)	(0.4)	(22.5)		(66.9)
Borrowings of long term debt				403.6		403.6
Payments of finance fees				(6.6)		(6.6)
Net payments for debt-related hedging activity				(3.9)		(3.9)
Cash provided by financing activities	—	1.8	96.4	(136.7)	53.5	15.0
Effect of exchange rate change on cash				8.9		8.9
Net change in cash	—	—	19.1	106.6	—	125.7
Cash at beginning of period			9.8	212.9		222.7
Cash at end of period	\$ —	\$ —	\$ 28.9	\$ 319.5	\$ —	\$ 348.4

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Cash Flows	Six months ended June 30, 2006					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ —	\$ (46.9)	\$ 1.8	\$ 6.3	\$ 22.6	\$ (16.2)
Investing Activities:						
Additions to property, plant, and equipment - continuing operations		(26.3)	(5.5)	(78.3)		(110.1)
Additions to property, plant, and equipment - discontinued operations			(13.4)	(0.8)		(14.2)
Proceeds from sales		0.7	0.1	6.8		7.6
Cash provided by (used in) investing activities	—	(25.6)	(18.8)	(72.3)	—	(116.7)
Financing Activities:						
Net distribution to OI Inc.	(86.2)					(86.2)
Change in intercompany transactions	86.2	192.3	(3.4)	(252.5)	(22.6)	—
Change in short term debt				103.1		103.1

Payments of long term debt	(234.4)	(548.4)	(782.8)
Borrowings of long term debt	119.0	797.2	916.2
Payments of finance fees	(4.4)	(7.9)	(12.3)
Net payments for debt-related hedging activity		(11.6)	(11.6)
Cash provided by (used in) financing activities	72.5	(3.4)	79.9
Effect of exchange rate change on cash			4.6
Net change in cash		(20.4)	18.5
Cash at beginning of period		30.6	216.0
Cash at end of period	\$ —	\$ 10.2	\$ 234.5
			\$ —
			\$ 244.7

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Executive Overview

Quarters ended June 30, 2007 and 2006

Net sales of the Glass Containers segment were \$252.2 million higher than the prior year principally resulting from improved pricing, increased unit shipments, and favorable foreign currency exchange rates.

Segment Operating Profit of the Glass Containers segment was \$96.1 million higher than the prior year. The benefits of higher selling prices, improved productivity, and increased unit shipments were partially offset by inflationary cost increases.

Interest expense from continuing operations for the second quarter of 2007 was \$82.2 million compared to \$92.5 million in the second quarter of 2006. Included in the 2006 interest expense was \$10.2 million for the write-off of unamortized finance fees related to the Company's previous credit agreement.

Net earnings from continuing operations for the second quarter of 2007 were \$153.8 million, compared to \$50.5 million for the second quarter of 2006. Earnings in both periods included items that management considered not representative of ongoing operations. These items increased net earnings in 2007 by \$13.5 million and decreased net earnings in 2006 by \$11.4 million.

Six months ended June 30, 2007 and 2006

Net sales of the Glass Containers segment were \$447.5 million higher than the prior year principally resulting from improved pricing, increased unit shipments, and favorable foreign currency exchange rates.

Segment Operating Profit of the Glass Containers segment was \$146.8 million higher than the prior year. The benefits of higher selling prices, improved productivity, and increased unit shipments were partially offset by inflationary cost increases.

Interest expense from continuing operations for the first six months of 2007 was \$163.2 million compared to \$176.0 million for the first six months of 2006. Included in the 2006 interest expense was \$10.2 million for the write-off of unamortized finance fees related to the Company's previous credit agreement.

Net earnings from continuing operations for the first six months of 2007 were \$209.1 million compared to \$78.1 million for the first six months of 2006. Earnings in both periods included items that management considered not representative of ongoing operations. These items increased net earnings in 2007 by \$13.5 million and decreased net earnings in 2006 by \$14.7 million.

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Results of Operations – Second Quarter of 2007 compared with Second Quarter of 2006

Net Sales

The Company's net sales, consisting of net sales of the Glass Containers segment, increased \$252.2 million, or 14.5%, over the second quarter of 2006.

The change in net sales can be summarized as follows (dollars in millions):

Net sales - 2006		\$ 1,744.8
Increased sales volume	\$ 86.8	
Net effect of price and mix	73.3	
Effects of changing foreign currency rates	92.1	
Total effect on net sales		252.2
Net sales - 2007		\$ 1,997.0

Segment Operating Profit

The Company's measure of profit for its reportable segment 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 the product segment in the table below 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 the product segment. Unallocated corporate expenses and certain other expenses not directly related to the product segment's operations are included in Other Retained Items. For further information, see Segment Information included in Note 7 to the Condensed Consolidated Financial Statements.

	2007	2006
	(dollars in millions)	
Glass Containers	\$ 316.3	\$ 220.2
Other retained items	(32.7)	(32.0)

Segment Operating Profit of the Glass Containers segment for the second quarter of 2007 increased \$96.1 million, or 43.6%, to \$316.3 million, compared with Segment Operating Profit of \$220.2 million in the second quarter of 2006.

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

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Segment Operating Profit - 2006		\$ 220.2
Net effect of price and mix	\$ 71.0	
Productivity and production volume	29.6	
Increased sales volume	20.7	
Effects of changing foreign currency rates	10.9	
Operating expense	4.4	
Warehouse, delivery and other costs	3.3	
Manufacturing inflation, net of cost savings	(40.3)	
Other	(3.5)	
Total net effect on Segment Operating Profit		96.1
Segment Operating Profit - 2007		<u>\$ 316.3</u>

Other retained items for the second quarter of 2007 were \$32.7 million compared to \$32.0 million for the second quarter of 2006. The amount for 2006 was increased by \$0.7 million to include certain corporate overhead previously allocated to the former Plastics Packaging segment.

Interest Expense

Interest expense for continuing operations for the second quarter of 2007 was \$82.2 million compared to \$92.5 million in the second quarter of 2006. Included in the 2006 interest expense was \$10.2 million for the write-off of unamortized finance fees related to the Company's previous credit agreement.

Minority Share Owners' Interest in Earnings of Subsidiaries

Minority share owners' interest in earnings of subsidiaries for the second quarter of 2007 was \$14.6 million compared to \$9.9 million for the second quarter of 2006. The increase is primarily attributed to higher earnings from the Company's operations in South America.

Results of Operations – First six months of 2007 compared with first six months of 2006

Net Sales

The Company's net sales consisting of net sales of the Glass Containers segment, increased \$447.5 million, or 13.8%, over the first six months of 2006.

The change in net sales can be summarized as follows (dollars in millions):

Net sales - 2006		\$ 3,233.5
Increased sales volume	\$ 142.4	
Net effect of price and mix	134.5	
Effects of changing foreign currency rates	170.6	
Total effect on net sales		447.5
Net sales - 2007		<u>\$ 3,681.0</u>

Segment Operating Profit

Operating Profit for the product segment in the table below includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs

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of specific services provided. For the Company's U.S. pension plans, net periodic pension cost (credit) has been allocated to the product segment. Unallocated corporate expenses and certain other expenses not directly related to the product segment's operations are included in Other Retained Items. For further information, see Segment Information included in Note 7 to the Condensed Consolidated Financial Statements.

	2007	2006
	(dollars in millions)	
Glass Containers	\$ 533.2	\$ 386.4
Other retained items	(66.6)	(56.0)

Segment Operating Profit of the Glass Containers segment for the first six months of 2007 increased \$146.8 million, or 38.0%, to \$533.2 million, compared with Segment Operating Profit of \$386.4 million in the first six months of 2006.

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

Segment Operating Profit - 2006	\$ 386.4
Net effect of price and mix	\$ 132.5
Productivity and production volume	57.9
Increased sales volume	38.8
Effects of changing foreign currency rates	18.9
Operating expense	3.4
Manufacturing inflation, net of cost savings	(71.6)
Warehouse, delivery and other costs	(26.3)
Other	(6.8)
Total net effect on Segment Operating Profit	146.8
Segment Operating Profit -2007	<u>\$ 533.2</u>

Other retained items for the first six months of 2007 were \$66.6 million compared to \$56.0 million for the first six months of 2006. The amount for 2006 was increased by \$1.4 million to include certain corporate overhead previously allocated to the former Plastics Packaging segment. The increase from 2006 is mainly due to higher accruals for self-insured risks for property related losses in the first quarter.

Interest Expense

Interest expense from continuing operations for the first six months of 2007 was \$163.2 million compared to \$176.0 million for the first six months of 2006. Included in the 2006 interest expense was \$10.2 million for the write-off of unamortized finance fees related to the Company's previous credit agreement.

Provision for Income Taxes

The Company's effective tax rate from continuing operations for the six months ended June 30, 2007 was 24.6%, compared with 38.9% for the first six months of 2006. The provision for 2007 includes a benefit of \$13.5 million for the recognition of tax credits related to restructuring of investments in certain European operations. Excluding that benefit and the effects of separately

taxed items in both periods, the Company's effective tax rate from continuing operations for the six months ended 2007 was 28.9% compared with 39.3% for the six months ended 2006. The reduction is principally due to a change in mix of earnings to jurisdictions where the Company is subject to lower effective rates. Based upon the current expectations for the mix of earnings for 2007, the Company anticipates that its effective tax rate from continuing operations for the year will be approximately 28%.

Minority Share Owners' Interest in Earnings of Subsidiaries

Minority share owners' interest in earnings of subsidiaries for the first six months of 2007 was \$26.1 million compared to \$19.0 million for the first six months of 2006. The increase is primarily attributed to higher earnings from the Company's operations in South America.

Discontinued Operations

On June 11, 2007, the Company announced that it had concluded the strategic review process of its plastics portfolio and entered into a definitive agreement with Rexam PLC to sell its plastics packaging business. On July 31, 2007, the Company completed the sale for approximately \$1.825 billion in cash.

Included in the sale were 19 plastics manufacturing plants in the U.S. (including Puerto Rico), Mexico, Brazil, Hungary, Singapore and Malaysia. The plastics packaging business is comprised of HealthCare Packaging and Closure & Specialty Products which design, manufacture and sell plastic packaging solutions for companies in the pharmaceutical, healthcare, food and beverage, personal care, household and automotive industries. The plastics packaging business comprised the Company's former Plastics Packaging segment.

As required by FAS No. 144, the Company has presented the results of operations for the plastics packaging business in the Condensed Consolidated Results of Operations for the three and six month periods ended June 30, 2007 and 2006 as discontinued operations. Interest expense was allocated to the discontinued operations based on debt that was required by an amendment to the Agreement to be repaid from the net proceeds. Amounts for the prior periods have been reclassified to conform to this presentation. At June 30, 2007 and 2006, and December 31, 2006, the assets and liabilities of the plastics packaging 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 operations for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
Net sales	\$ 200.9	\$ 200.7	\$ 389.2	\$ 400.3
Other revenue (expense), net	(0.1)	1.0	(0.1)	1.4
	<u>200.8</u>	<u>201.7</u>	<u>389.1</u>	<u>401.7</u>
Costs and expenses:				
Manufacturing, shipping and delivery	153.2	155.2	297.5	310.7
Research, development and engineering	3.4	3.9	7.2	7.7
Selling and administrative	8.7	9.1	16.9	17.2
Interest	34.4	37.9	68.3	73.8
Other	1.9	4.8	2.3	4.9
	<u>201.6</u>	<u>210.9</u>	<u>392.2</u>	<u>414.3</u>
Losses before items below	(0.8)	(9.2)	(3.1)	(12.6)
Provision for income taxes	3.2	(1.3)	3.0	(1.4)
Minority share owners' interests in earnings of subsidiaries	0.1		0.1	
Net losses from discontinued operations	<u>\$ (4.1)</u>	<u>\$ (7.9)</u>	<u>\$ (6.2)</u>	<u>\$ (11.2)</u>

The condensed consolidated balance sheet at June 30, 2007, December 31, 2006, and June 30, 2006 included the following assets and liabilities related to the discontinued operations:

	Balance at June 30, 2007	Balance at December 31, 2006	Balance at June 30, 2006
Assets:			
Inventories	\$ 50.3	\$ 46.9	\$ 49.3
Accounts receivable	72.0	56.7	71.3
Other current assets	2.1	1.2	1.9
Total current assets	<u>124.4</u>	<u>104.8</u>	<u>122.5</u>
Goodwill	215.5	209.5	209.5
Other long-term assets	46.3	43.0	46.0
Net property, plant and equipment	330.1	319.2	318.5
Total assets	<u>\$ 716.3</u>	<u>\$ 676.5</u>	<u>\$ 696.5</u>
Liabilities:			
Accounts payable and other current liabilities	\$ 77.5	\$ 70.9	\$ 81.9
Other long-term liabilities	7.9	1.6	1.5
Total liabilities	<u>\$ 85.4</u>	<u>\$ 72.5</u>	<u>\$ 83.4</u>

Capital Resources and Liquidity

The Company's total debt at June 30, 2007 was \$5.64 billion, compared to \$5.46 billion at December 31, 2006 and \$5.57 billion at June 30, 2006.

On June 14, 2006, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the "Agreement"). At June 30, 2007, the Agreement included a \$900.0 million revolving credit facility, a 292.5 million Australian dollar term loan, and a 134.6 million Canadian dollar term loan, each of which has a final maturity date of June 15, 2012. It also included a \$195.5 million term loan and a €195.5 million term loan, each of which has a final maturity date of June 14, 2013.

At June 30, 2007 the Company's subsidiary borrowers had unused credit of \$813.1 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at June 30, 2007 was 6.63%.

During March 2007, a subsidiary of the Company issued Senior Notes totaling €300.0 million. The notes bear interest at 6.875% and are due March 31, 2017. The notes are guaranteed by the Company and substantially all of the Company's domestic subsidiaries. The proceeds were used to retire the \$300 million principal amount of 8.10% Senior Notes which matured in May 2007, and to reduce borrowings under the revolving credit facility.

On July 31, 2007, the Company completed the sale of its plastics packaging business to Rexam PLC for approximately \$1.825 billion in cash. In accordance with an amendment of the Agreement that became effective upon completion of the sale of the plastics business, the Company will use the net proceeds to repay secured debt. In addition, the Amendment provides for modification of certain covenants, including the elimination of the financial covenant requiring the Company to maintain a specified interest coverage ratio, and reduces the commitment fee on the revolver and interest margins on \$350 million of term loans.

During the fourth quarter of 2005, the Company expanded the capacity of its European accounts receivable securitization program from €200 million to €320 million to include operations in Italy and the United Kingdom. The accounts receivable securitization program provides lower costs of financing than traditional bank debt. The terms of this expansion resulted in changing from off-balance sheet to on-balance sheet accounting for the program by consolidating both the accounts receivable in the program and the secured indebtedness of the same amount. Cash inflows related to receipts from customers

in payment of the accounts receivable consolidated at December 13, 2005 have been classified as investing cash inflows in the accompanying Consolidated Statement of Cash Flows.

Information related to the Company's accounts receivable securitization program is as follows:

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	June 30, 2007	Dec. 31, 2006
Balance (included in short-term loans):		
European program	\$ 365.8	\$ 195.0
Asia Pacific program	81.7	84.4
Weighted average interest rate:		
European program	4.90%	4.81%
Asia Pacific program	7.45%	7.43%

Cash provided by continuing operating activities in the first six months of 2007 was \$226.7 million compared with a use of \$163.4 million in the prior year. The 2006 amount excludes \$127.3 million of collections on receivables arising from the consolidation of the receivables securitization program as described in Note 2 to the Condensed Consolidated Financial Statements. Including the 2006 collection of receivables from the securitization program, working capital usage during the first six months improved approximately \$81.2 million in 2007 compared to 2006.

Capital spending for property, plant and equipment (continuing operations) was \$102.1 million compared to \$110.1 million in the prior year. In addition, the Company capitalized \$12.1 million under capital lease obligations with the related financing recorded as long term debt. The Company continues to focus on reducing capital spending and improving its return on invested capital by improving capital efficiency.

OI Inc. has substantial obligations related to semiannual interest payments on \$750.0 million of outstanding public debt securities. In addition, OI Inc. pays aggregate annual dividends of \$21.5 million on 9,050,000 share of its \$2.375 convertible preferred stock. OI Inc. also makes, and expects in the future to make, substantial indemnity payments and payments for legal fees and expenses in connection with asbestos-related lawsuits and claims. OI Inc.'s asbestos-related payments were \$93.7 million and \$80.7 million for the six months ended June 30, 2007 and 2006, respectively. OI Inc. relies primarily on distributions from the Company to meet these obligations. Based on OI Inc.'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 payments to OI Inc. for 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.

The Company anticipates that cash flow from its operations and from utilization of credit available under the 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 including payments to OI Inc., described above.

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

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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. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances at the time the financial statements are issued. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.

The impact of and any associated risks related to estimates 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 property, plant and equipment, impairment of long-lived assets, pension benefit plans, and income taxes involves the more significant judgments and estimates used in the preparation of its consolidated financial statements.

Property, Plant and Equipment

The net carrying amount of property, plant and equipment ("PP&E") for continuing operations at June 30, 2007 totaled \$2,857.4 million, representing 29% of total assets. Depreciation expense for the first six months of 2007 for continuing operations totaled \$209.7 million, representing over 6% of total costs and expenses. Given the significance of PP&E and associated depreciation to the Company's consolidated financial statements, the determinations of an asset's cost basis and its economic useful life are considered to be critical accounting estimates.

Cost Basis - PP&E is recorded at cost, which is generally objectively quantifiable when assets are purchased singly. However, when assets are purchased in groups, or as part of a business, costs assigned to PP&E are based on an estimate of fair value of each asset at the date of acquisition. These estimates are

based on assumptions about asset condition, remaining useful life and market conditions, among others. The Company frequently employs expert appraisers to aid in allocating cost to assets purchased as a group.

Included in the cost basis of PP&E are those costs which substantially increase the useful lives or capacity of existing PP&E. Significant judgment is needed to determine which costs should be capitalized under these criteria and which costs should be expensed as a repair or maintenance expenditure. For example, the Company frequently incurs various costs related to its existing glass melting furnaces and molding machines and must make a determination of which costs, if any, to capitalize. The Company relies on the experience and expertise of its operations and engineering staff to make reasonable and consistent judgments regarding increases in useful lives or capacity of PP&E.

Estimated Useful Life – PP&E is generally depreciated using the straight-line method, which deducts equal amounts of the cost of each asset from earnings each period over its estimated economic useful life. Economic useful life is the duration of time an asset is expected to be productively employed by the Company, which may be less than its physical life. Management’s assumptions on the following factors, among others, affect the determination of estimated

economic useful life: wear and tear, product and process obsolescence, technical standards, and changes in market demand.

The estimated economic useful life of an asset is monitored to determine its appropriateness, especially in light of changed business circumstances. For example, technological advances, excessive wear and tear, or changes in customers’ requirements may result in a shorter estimated useful life than originally anticipated. In these cases, the Company depreciates the remaining net book value over the new estimated remaining life, thereby increasing depreciation expense per year on a prospective basis. Likewise, if the estimated useful life is increased, the adjustment to the useful life decreases depreciation expense per year on a prospective basis. Over the past three years, changes in economic useful life assumptions have not had a material impact on the Company’s reported results.

Impairment of Long-Lived Assets

Property, Plant and Equipment –As required by FAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the Company tests for impairment of PP&E whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. PP&E held for use in the Company’s business is grouped for impairment testing at the lowest level for which cash flows can reasonably be identified, typically a factory. The Company assesses recoverability by comparing the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the assets. If an asset group is considered impaired, the impairment loss to be recognized is measured as the amount by which the asset group’s carrying amount exceeds its fair value. PP&E held for sale is reported at the lower of carrying amount or fair value less cost to sell.

Impairment testing requires estimation of the fair value of PP&E based on the discounted value of projected future cash flows generated by the asset group. The assumptions underlying cash flow projections represent management’s best estimates at the time of the impairment review. Factors that management must estimate include: industry and market conditions, sales volume and prices, costs to produce, inflation, etc. Changes in key assumptions or actual conditions which differ from estimates could result in an impairment charge. The Company uses reasonable and supportable assumptions when performing impairment reviews and cannot predict the occurrence of future events and circumstances that could result in impairment charges. There were no material charges for impairment of asset groups held for use in the first six months of 2007 or for the years ended December 31, 2006, 2005, and 2004.

The Company is undertaking a strategic review of its global manufacturing footprint. The review is expected to be completed during the second half of 2007. It is possible that the Company may conclude in the future that it will close or temporarily idle selected facilities or production lines and reduce headcount to increase operating performance and cash flows. As of June 30, 2007, no decisions had been made and no events had occurred that would require an evaluation of possible impairment in accordance with FAS 144.

Goodwill – Goodwill at June 30, 2007 for continuing operations totaled \$2,324.3 million, representing 24% of total assets. 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 projected 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 of goodwill may exist.

During the fourth quarter of 2006, the Company completed its annual testing and determined that no impairment of goodwill existed.

If the Company’s projected future cash flows were substantially lower, or if the assumed weighted average cost of capital was substantially higher, the testing performed as of October 1, 2006, may have indicated an impairment of one or more of the Company’s reporting units and, as a result, the related goodwill would also have been impaired. For example, if projected future 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 7%, the results of the impairment testing could be negatively affected by relatively modest changes in the assumptions and projections. At June 30, 2007, the goodwill of the Asia Pacific Glass reporting unit accounted for approximately \$536 million of the Company’s consolidated goodwill.

The Company will monitor conditions throughout 2007 that might significantly affect the projections and variables used in the impairment test to determine if a review prior to October 1 may be appropriate. If the results of impairment testing confirm that a write down of goodwill is necessary, then the Company will record a charge in the fourth quarter of 2007, or earlier if appropriate. 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.

Other Long-Lived Assets – Other long-lived assets include, among others, equity investments and repair parts inventories. The Company’s equity investments are non-publicly traded ventures with other companies in businesses related to those of the Company. Equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. In the event that a decline in fair value of an investment occurs, and the decline in value is considered to be other than temporary, an impairment loss is recognized. Summarized financial information of equity affiliates is included in Note 5 to the Consolidated Financial Statements in the Company’s 2006 Annual Report on Form 10-K. There were no material charges for impairment of equity investments during the first six months of 2007 or for the years ended December 31, 2006, 2005, and 2004.

Repair parts inventories are carried in order to provide a dependable supply of quality parts for servicing the Company’s PP&E, particularly its glass melting furnaces and molding machines. The Company evaluates the recoverability of repair parts inventories based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the repair parts are written down to fair value. The Company continually monitors the carrying value of repair parts for recoverability, especially in light of changing business circumstances. For example, technological advances related to, and changes in, the estimated future demand for products produced on the equipment to which the repair parts relate may make the repair parts obsolete. In these circumstances, the Company writes down the repair parts to fair value.

Pension Benefit Plans

Significant Estimates - The determination of pension obligations and the related pension expense or credits to operations 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 charges or 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, 2006, the weighted average discount rate for all plans was 5.49%. 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. Due to the nature of the plans’ assets and the volatility of debt and equity markets, results may vary significantly from year to year. For example, actual returns in the Company’s two largest plans were negative in each of the years 2000-2002. The returns exceeded 20% in 2003, 18% in 2004, 10% in 2005 and 16% in 2006. The Company refers to average historical returns over longer periods (up to 10 years) in determining its expected rates of return because short-term fluctuations in market values do not reflect the rates of return the Company expects to achieve based upon its long-term investing strategy. For 2007, the Company’s estimated weighted average expected long-term rate of return on pension assets is 8.1% compared to 8.1% for the year ended December 31, 2006. The Company recorded pension expense of \$0.6 million and \$16.6 million for continuing operations for the first six months of 2007 and 2006, respectively, from its principal defined benefit pension plans. Depending on currency translation rates, the Company expects to record approximately \$0.9 million of pension expense for continuing operations for the full year of 2007. The improvement in 2007 is principally the result of higher asset values in the U.S. plans.

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 \$19 million in pretax pension expense for the full year 2007. In addition, changes in external factors, including the fair values of plan assets and the discount rates used to calculate plan liabilities, could have a significant effect on the recognition of funded status as described below.

Recognition of Funded Status – In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” (“FAS No. 158”). The Company adopted the provisions of FAS No. 158 as of December 31, 2006. FAS No. 158 requires employers to adjust the assets and liabilities related to defined benefit plans so that the amounts reflected on the balance sheet represent the overfunded or underfunded status of the plans. These funded status amounts are measured as the difference between the fair value of plan assets and benefit obligations as of the balance sheet date. For pension plans, the fair value of plan assets is compared to the Projected Benefit Obligation (“PBO”). For other postretirement benefit plans, the fair value of plan assets is compared to the Accumulated Postretirement Benefit Obligation (“APBO”). In the Company’s case, the required adjustments resulted in a non-cash charge of \$639.9 million (\$617.1 million after tax) to the Accumulated Other Comprehensive Income component of share owners’ equity. The most significant of the required adjustments was a \$502.5 million reduction of the prepaid pension asset at December 31, 2006. As required by FAS 158, the Company will adjust the assets and liabilities annually as of December 31, based on values determined at that date.

Funding and Credit Compliance - - The Company believes it will not be required to make cash contributions to the U.S. plans for at least several years. The Company expects to contribute approximately \$55 million to its non-U.S. defined benefit pension plans in 2007, down from \$69.5 million in 2006. The covenants under the Company’s Secured Credit Agreement were not affected by the \$617.1 million reduction in the Company’s net worth under FAS No. 158.

Income Taxes

The Company accounts for income taxes under the provisions of FAS No. 109, “Accounting for Income Taxes,” under which deferred tax assets and liabilities are recognized for the tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities measured using the enacted tax rate. Income tax expense on continuing operations was \$76.8 million for the six months ended June 30, 2007.

As referenced in Note 13 to the Financial Statements, the Company adopted FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes”, (“FIN 48”), as of January, 1, 2007. Management judgment is required in determining income tax expense and the related balance sheet amounts. In addition, under FIN 48 judgments are required concerning the ultimate outcome of uncertain income tax positions. Actual income taxes paid may vary from estimates, depending upon changes in income tax laws, actual results of operations, and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed. The Company believes that its recorded tax liabilities adequately provide for the probable outcome of these assessments.

Deferred tax assets are also recorded for operating losses and tax credit carryforwards. However, FAS No. 109 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. This assessment is largely dependent upon projected near-term profitability including the effects of tax planning. 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 net operating losses, capital losses, tax credits and the accrued liability for asbestos-related costs that are not deductible until paid. The deferred tax assets are partially offset by deferred tax liabilities, the most significant of which relate to the prepaid pension asset and accelerated depreciation. The Company has recorded a valuation allowance for the portion of U.S. deferred tax assets not offset by deferred tax liabilities. Under the new accounting standard for recognition of the funded status of postretirement benefit plans (as described above under *Pension Benefit Plans*), in 2006 the Company was required to write off a significant portion of its prepaid pension asset, principally related to the U.S. pension plans, and increase recorded liabilities for other U.S. plans. The related deferred tax liabilities and assets were also adjusted. As a result, in 2006 the Company was required to record an additional valuation allowance of \$197.5 million.

Forward Looking Statements

This document contains “forward looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Forward-looking statements reflect the Company’s current expectations and projections about future events at the time, and thus involve uncertainty and risk. It is possible the Company’s future financial performance may differ from expectations due to a variety of factors including, but not limited to the following: (1) foreign currency fluctuations relative to the U.S. dollar, (2) changes in capital availability or cost, including interest rate fluctuations, (3) the general political, economic and competitive conditions in markets and countries where the Company has its operations, including disruptions in the supply chain, competitive pricing pressures, inflation or deflation, and changes in tax rates and laws, (4) consumer preferences for alternative forms of packaging, (5) fluctuations in raw material and labor costs, (6) availability of raw materials, (7) costs and availability of energy, (8) transportation costs, (9) the ability of the Company to raise selling prices commensurate with energy and other cost increases without the loss of customers or sales volume, (10) consolidation among competitors and customers, (11) the ability of the

Company to integrate operations of acquired businesses and achieve expected synergies, (12) unanticipated expenditures with respect to environmental, safety and health laws, (13) the performance by customers of their obligations under purchase agreements, and (14) the timing and occurrence of events which are beyond the control of the Company, including events related to OI Inc.’s asbestos-related claims. It is not possible to foresee or identify all such factors. Any forward looking statements in this document are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. Forward-looking statements are not a guarantee of future performance and actual results or developments may differ materially from expectations. While the Company continually reviews trends and uncertainties affecting the Company’s results of operations and financial condition, the Company does not assume any obligation to update or supplement any particular forward looking statements contained in this document.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

There have been no material changes in market risk at June 30, 2007 from those described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. Controls and Procedures.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company’s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, the Company has investments in certain unconsolidated entities. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those maintained with respect to its consolidated subsidiaries.

As required by Rule 13a-15(b) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2007.

Management concluded that the Company’s system of internal control over financial reporting was effective as of December 31, 2006. There has been no change in the Company’s internal controls over financial reporting during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting. The Company has undertaken the phased implementation of an enterprise resource planning software system and believes it is maintaining and monitoring

appropriate internal controls during the implementation period. The Company believes that the internal control environment will be enhanced as a result of implementation.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

For further information on legal proceedings, see Note 6 to the Condensed Consolidated Financial Statements, "Contingencies," that is included in Part I of this Report and is incorporated herein by reference.

Item 1A. Risk Factors.

There have been no material changes in risk factors at June 30, 2007 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Item 6. Exhibits.

Exhibit 2.1	Stock Purchase Agreement among Rexam PLC, Rexam Inc., Owens-Illinois Group, Inc. and Owens-Illinois, Inc. dated as of June 11, 2007 (filed as Exhibit 99.2 to Owens-Illinois, Inc.'s Form 8-K dated June 11, 2007, File No. 1-9576, and incorporated herein by reference).
Exhibit 4.1	Second Amendment to Credit Agreement and Consent, dated June 11, 2007 (filed as Exhibit 4.1 to Owens-Illinois, Inc.'s and Owens-Illinois Group, Inc.'s Form 8-K dated August 6, 2007, File Nos. 1-9576 and 33-13061, and incorporated herein by reference).
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges
Exhibit 31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
Exhibit 32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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 thereunto duly authorized.

OWENS-ILLINOIS GROUP, INC.

Date August 7, 2007

By /s/ Edward C. White
Edward C. White
President and Chief Financial Officer
(Principal Financial Officer)

INDEX TO EXHIBITS

Exhibits

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OWENS-ILLINOIS GROUP, INC.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (Dollars in millions)

	Six months ended June 30,	
	2007	2006
Earnings from continuing operations before income taxes, and minority share owners' interests.	\$ 312.0	\$ 159.0
Less: Equity earnings	(13.9)	(13.0)
Add: Total fixed charges deducted from earnings	166.5	180.7
Proportional share of pre-tax earnings of 50% owned associates	1.6	4.4
Dividends received from equity investees	7.2	34.1
Earnings available for payment of fixed charges	<u>\$ 473.4</u>	<u>\$ 365.2</u>
Fixed charges (including the Company's proportional share of 50% owned associates):		
Interest expense	\$ 160.7	\$ 171.0
Portion of operating lease rental deemed to be interest	3.3	4.7
Amortization of deferred financing costs and debt discount expense	2.5	5.0
Total fixed charges deducted from earnings and fixed charges	<u>\$ 166.5</u>	<u>\$ 180.7</u>
Ratio of earnings to fixed charges	2.8	2.0

CERTIFICATIONS

I, Albert P.L. Stroucken, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Owens-Illinois Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting;

Date August 7, 2007

/s/ Albert P.L. Stroucken
Albert P.L. Stroucken
Chairman and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Edward C. White, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Owens-Illinois Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting;

Date August 7, 2007

/s/ Edward C. White
Edward C. White
President and Chief Financial Officer
(Principal Financial Officer)

Certification of Principal Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Owens-Illinois Group, Inc. (the "Company") hereby certifies that to such officer's knowledge:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2007

/s/ Albert P.L. Stroucken

Albert P.L. Stroucken
Chairman and Chief Executive Officer
Owens-Illinois Group, Inc.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Principal Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Owens-Illinois Group, Inc. (the "Company") hereby certifies that to such officer's knowledge:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2007

/s/ Edward C. White

Edward C. White

President

Owens-Illinois Group, Inc.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.