March 2012

Dear Stakeholder:

For several years, we have been building a more flexible, innovative and customer-focused O-I. In 2011, we intensified those efforts to further build and expand our reputation as the preferred packaging supplier to customers around the world. We have added key capabilities in the R&D and product and process innovation areas, believing that the natural benefits of glass packaging can be enhanced through technologies that provide more sustainable and brand differentiating options. We have grown our portfolio with existing customers, welcomed new ones and deepened relationships with many more through our very successful glass smart™ business development methodology.

We continue to invest in our people through leadership training and performance management programs. We are aggressively focusing on improving the safety of our operations, as well as the quality of the containers that our customers have trusted us to make. We also are changing the conversation about glass. Through our global marketing campaign, Glass Is Life™, we have given our industry a voice and brought the unique benefits of glass, such as sustainability, purity and health, to the forefront of the packaging debate.

In 2011, we recorded some of the highest sales in recent company history, generating $7.4 billion in sales. Segment operating profit was $894 million, down from $964 million in 2010. Adjusted net earnings from continuing operations were $2.37 per share in 2011, compared with $2.60 in 2010. We made a small, but important acquisition, and dedicated most of our efforts in 2011 to our core operations and improving performance.

Our single acquisition was a plant in southern France that makes bottles for the world-renowned Perrier® brand. This move was part of an expanded agreement with Nestle Waters to be their leading supplier of glass bottles in the important bottled water segment.

Our sales volumes improved by more than 5 percent in 2011, with prior year acquisitions accounting for about four percentage points of that change. Shipments increased across all key end-use categories, including beer, wine, spirits and food.

We took advantage of our global footprint to grow with our customers in the rapidly expanding markets of Brazil and China. While growth in the mature markets of North America and Europe hovered in the low single digits, we tapped into strong growth opportunities in specific market segments such as craft beers, spirits and premium wines, where growth rates ranged in the high single to low double digits.

We faced significant operational and economic challenges in our mature markets this year. Supply chain and manufacturing inefficiencies in North America in the second quarter, stemming in part from the collision of increased demand and a leaner footprint, impacted performance. We took swift corrective action and were back on track before year end.

The ongoing weak economy in Australia resulted in greatly reduced bottled wine and beer sales. The strong Australian dollar has led to a structural change in the wine industry, with producers exporting in bulk and bottling out of the country. As a result, we reduced the size of our footprint in Australia and wrote off our Asia Pacific goodwill.

We battled high cost inflation in every region in 2011, particularly in Europe. Globally, cost inflation exceeded price recovery by about $150 million in the year, which impacted our margins. We have been aggressively addressing this issue and expect pricing in 2012 to help restore our margins.

Our business in South America continues to grow profitably and our team there unceasingly demonstrates their leadership in the region's packaging industry. We generated a segment profit of $250 million in South America in 2011, an increase of $26 million over the previous year. Brazil continues to drive volume growth in the region. To fully realize the benefits of our work in Brazil, we bought out the remaining minority interest in our southern Brazil glass container company. In 2011, our margins in Brazil were impacted by our strategy to build the market through imports from O-I plants in other countries. With demand firmly established, we plan to add a furnace in Brazil in 2012.

We continue to strengthen our operations in China and we are committed to this very large and promising market. We are executing on our growth strategy in the southern part of the country, and expanding our production capabilities there. In addition, we are building a new plant in Dongtai, Jiangsu Province, in the central coastal area of China. Construction will begin in 2012. In the North, we are focusing on the integration of our acquired plants. Although there are many challenges associated with doing business in this country, there are innumerable opportunities to influence packaging choices as the food and beverage industry grows.

We look to 2012 with guarded optimism. While we are strengthening our core, we are still facing varying rates of growth throughout the world. We have elevated cash generation and operating expenditure control on our list of objectives for 2012. We are confident in our manufacturing expertise, the power of our global footprint and the sustainability of glass. More and more customers, retailers and consumers are embracing the benefits of glass as the package of choice. We are happy to lead the way.

Al Stroucken
Chairman and CEO