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April 5, 2013

Dear Stakeholder,

As we continue our journey to become the preferred glass supplier to customers around the world, we are emboldened by the progress we are making and the change we are experiencing at O-I. Despite continued challenging macroeconomic conditions in 2012, we increased our profitability, generated more cash and made significant strides in innovation. We are investing in our people and challenging them to identify ways to enhance our flexibility, to increase our cost competitiveness and to position O-I as a strategic partner to our customers. In essence, we are creating a "new" O-I. We know that our deep expertise in glass making and our constant desire to push for something better, faster and more efficient gives us the strength we need to navigate the change.

In 2012, we generated sales of $7.0 billion, down from $7.4 billion in 2011, largely driven by weak market conditions and our pricing actions in Europe. Unfavorable currency translation also contributed to the dip in sales, but was partially offset by higher prices on a global scale. Segment operating profit increased by $35 million, and adjusted net earnings were $2.64 per share, up nearly 9 percent from the previous year.

We made good progress in our efforts to repair profitability in our North American and Asia Pacific regions in 2012. We are now realizing the benefits of the restructuring we've undertaken in both regions in recent years. Operating profits increased in North America by nearly 30 percent in 2012, buoyed by significant improvements in our manufacturing and supply chain performance. Asia Pacific's operating profit increased 36 percent in 2012, despite lower shipment levels and sluggish market conditions in Australia and New Zealand.

In South America shipment levels were up, but profitability was down slightly. This is primarily a reflection of the buffer strategy we used in Brazil to build volumes by sourcing from other countries. Once the volume was firmly established, we invested in a new furnace in southern Brazil, and ramped up production at the end of 2012. We expect continued volume growth of mid-single digits in the region in 2013. We also expect improved profitability now that the furnace is operational and cross-border transportation costs associated with the buffer strategy for that particular volume have been eliminated.

News headlines featured the macroeconomic challenges in Europe for much of 2012. With about 40 percent of our business in Europe, we too were impacted by the soft European economy. Shipment levels were down 9 percent from 2011, driven by weakness in the wine and food end markets. While we experienced some share shift to smaller competitors earlier in the year as a result of our margin repair strategy, market share has remained steady since mid last year. In response to slowing sales, we curtailed production in several locations in Europe in 2012. This, along with currency headwinds, resulted in lower year-over-year operating profit.

We have embarked on a multi-year asset optimization program in Europe, designed to provide cost leadership, as well as market leadership. The plan calls for an incremental investment of about $250 million over the next three years, twice the normal amount of our investment in that region. It provides for the elimination of underperforming assets and reduction of idle capacity. And it outlines investments in low cost additional capacity and enhancements in quality, speed and flexibility. We expect to begin seeing improvements in our cost structure in Europe in the second half of 2013.

During 2012, our leadership team took a fresh look at our strategy, the path we have been on for the last several years, and what is needed to pave the way to a successful future. Much of our discussion focused on our competitive position in the marketplace, the rapid globalization of the markets, and our need to function more nimbly. By focusing on speed and execution, and tapping into the passion we all have for glass, we will strengthen our competitive advantage. We will do this by significantly reducing structural costs, while we also continue to invest in innovation, as well as research and development. In fact, we broke ground for the construction of a new R&D innovation center at our headquarters' campus in Perrysburg, Ohio. The center is part of an additional three-year $35 million investment in R&D.

We are especially enthusiastic about the exciting developments in our commercial organization. We have long been the best glass maker in the world, and we are well on our way to becoming the most desirable business partner for our customers as well. We've heard directly from key customers that they hardly recognize the innovative, brand building partner we've become. In 2012 we launched several new innovation platforms featuring branded products that address customer challenges and known consumer irritants such as drips, mess and product waste.

There's no better packaging solution for food and beverages than glass. We love glass, and we feel fortunate that our natural, pure and healthy product provides consumers with the most sustainable package possible. Glass is Life™ has grown from a business to business marketing campaign to an award-winning movement that has engaged customers, inspired consumers, and energized our employees. It has become a part of our identity and our culture. The passion around Glass is Life is palpable. We know glass. And we know that consumers prefer glass. More and more customers are realizing that glass is the package of choice, not only in terms of brand differentiation, but because the purity of glass packaging ensures that nothing interacts with the food or beverage contained inside. It's about preserving taste, and no package does that better than ours.

We've got the right product, the right path forward, and the right people leading the charge. We are proud and appreciative of our 22,500 employees worldwide who work so hard every day to make O-I great. We are all excited about the next several years, and particularly about the resurgence of glass as a packaging choice.

Al Stroucken