

**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, 2004

or

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

Owens-Illinois, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other
jurisdiction of
incorporation or
organization)

1-9576
(Commission
File No.)

22-2781933
(IRS Employer
Identification No.)

One SeaGate, Toledo, Ohio
(Address of principal executive offices)

43666
(Zip Code)

419-247-5000
(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 an accelerated filer (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, Inc. \$.01 par value common stock—149,204,117 shares at July 31, 2004.

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. Since 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, 2003.

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

	Three months ended June 30,	
	2004	2003
Revenues:		
Net sales	\$ 1,716.3	\$ 1,579.6
Royalties and net technical assistance	8.1	5.8
Equity earnings	9.1	7.8
Interest	3.6	6.3
Other	24.9	4.6
	1,762.0	1,604.1
Costs and expenses:		
Manufacturing, shipping, and delivery	1,393.9	1,270.7
Research and development	11.7	12.4
Engineering	8.6	7.6
Selling and administrative	86.3	82.2
Interest	116.2	138.4
Other	21.9	43.3
	1,638.6	1,554.6
Earnings before items below	123.4	49.5
Provision for income taxes	33.8	26.7
Minority share owners' interests in earnings of subsidiaries	7.6	5.8
Net earnings	\$ 82.0	\$ 17.0
Basic net earnings per share of common stock	\$ 0.52	\$ 0.08
Weighted average shares outstanding (thousands)	147,582	146,891
Diluted net earnings per share of common stock	\$ 0.52	\$ 0.08
Weighted diluted average shares (thousands)	149,245	147,526

See accompanying notes.

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

	Six months ended June 30,	
	2004	2003
Revenues:		
Net sales	\$ 3,261.7	\$ 2,966.0
Royalties and net technical assistance	15.8	12.5
Equity earnings	14.7	13.6
Interest	6.9	14.1
Other	30.1	9.8
	<u>3,329.2</u>	<u>3,016.0</u>
Costs and expenses:		
Manufacturing, shipping, and delivery	2,654.0	2,410.8
Research and development	22.0	22.3
Engineering	18.0	17.8
Selling and administrative	176.8	165.8
Interest	230.6	249.4
Other	26.1	45.9
	<u>3,127.5</u>	<u>2,912.0</u>
Earnings before items below	201.7	104.0
Provision for income taxes	57.2	43.9
Minority share owners' interests in earnings of subsidiaries	13.5	8.7
	<u>131.0</u>	<u>51.4</u>
Net earnings	\$ 131.0	\$ 51.4
Basic net earnings per share of common stock	\$ 0.82	\$ 0.28
Weighted average shares outstanding (thousands)	147,312	146,872
Diluted net earnings per share of common stock	\$ 0.81	\$ 0.28
Weighted diluted average shares (thousands)	148,682	147,522

See accompanying notes.

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

	June 30, 2004	Dec. 31, 2003	June 30, 2003
Assets			
Current assets:			
Cash, including time deposits	\$ 301.8	\$ 163.4	\$ 150.2
Short-term investments, at cost which approximates market	22.9	26.8	24.8
Receivables, less allowances for losses and discounts (\$54.5 at June 30, 2004, \$52.0 at December 31, 2003, and \$51.4 at June 30, 2003)	1,042.6	769.7	876.7
Inventories	1,187.4	1,010.1	1,006.6
Prepaid expenses	173.7	151.8	155.8
	<u>2,728.4</u>	<u>2,121.8</u>	<u>2,214.1</u>
Total current assets			
Investments and other assets:			
Equity investments	153.8	145.3	192.8
Repair parts inventories	202.1	201.0	202.2
Prepaid pension	975.4	967.1	946.5
Deposits, receivables, and other assets	461.5	428.9	578.1
Goodwill	2,872.9	2,280.2	2,839.6
	<u>4,665.7</u>	<u>4,022.5</u>	<u>4,759.2</u>
Total other assets			
Property, plant, and equipment, at cost	6,947.8	6,411.7	6,360.5
Less accumulated depreciation	3,106.8	3,024.7	2,910.4
	<u>3,841.0</u>	<u>3,387.0</u>	<u>3,450.1</u>
Net property, plant, and equipment			
Total assets	\$ 11,235.1	\$ 9,531.3	\$ 10,423.4

CONDENSED CONSOLIDATED BALANCE SHEETS—Continued

	June 30, 2004	Dec. 31, 2003	June 30, 2003
Liabilities and Share Owners' Equity			
Current liabilities:			
Short-term loans and long-term debt due within one year	\$ 431.8	\$ 92.4	\$ 108.1
Current portion of asbestos-related liabilities	170.0	175.0	185.0
Accounts payable and other liabilities	1,458.7	1,096.0	1,051.5
Total current liabilities	2,060.5	1,363.4	1,344.6
Long-term debt	6,270.5	5,333.1	5,649.3
Deferred taxes	195.1	119.6	309.9
Nonpension postretirement benefits	279.3	284.8	287.3
Other liabilities	697.5	637.2	539.6
Asbestos-related liabilities	537.7	628.7	267.8
Commitments and contingencies			
Minority share owners' interests	156.3	161.1	142.7
Share owners' equity:			
Convertible preferred stock, par value \$.01 per share, liquidation preference \$50 per share, 9,050,000 shares authorized, issued and outstanding	452.5	452.5	452.5
Common stock, par value \$.01 per share 250,000,000 shares authorized, 161,936,675 shares issued and outstanding, less 12,789,392 treasury shares at June 30, 2004 (160,768,191 issued and outstanding, less 12,914,262 treasury shares at December 31, 2003 and 160,682,556 issued and outstanding, less 12,914,262 treasury shares at June 30, 2003)	1.6	1.6	1.6
Capital in excess of par value	2,240.5	2,229.3	2,227.5
Treasury stock, at cost	(245.2)	(247.6)	(247.6)
Retained deficit	(1,069.1)	(1,189.3)	(136.4)
Accumulated other comprehensive loss	(342.1)	(243.1)	(415.4)
Total share owners' equity	1,038.2	1,003.4	1,882.2
Total liabilities and share owners' equity	\$ 11,235.1	\$ 9,531.3	\$ 10,423.4

See accompanying notes.

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

	Six months ended June 30,	
	2004	2003
Cash flows from operating activities:		
Net earnings	\$ 131.0	\$ 51.4
Non-cash charges (credits):		
Depreciation	240.3	231.5
Amortization of intangibles and other deferred items	15.9	14.5
Amortization of finance fees	9.8	11.3
Deferred tax provision	(9.1)	11.5
Gain on sale of certain real property	(20.6)	
Charge for certain intellectual property litigation	14.5	
Loss on the sale of long-term notes receivable		37.4
Other	(28.9)	(43.0)
Change in non-current operating assets	3.0	1.7
Asbestos-related payments	(95.9)	(99.9)
Asbestos-related insurance proceeds	0.4	4.8
Change in non-current liabilities	(11.0)	(4.1)
Change in components of working capital	(28.7)	(245.4)
Cash provided by (used in) operating activities	220.7	(28.3)
Cash flows from investing activities:		
Additions to property, plant, and equipment	(183.9)	(220.7)
Acquisitions, net of cash acquired	(625.1)	
Net cash proceeds from divestitures and asset sales	93.4	11.9
Cash utilized in investing activities	(715.6)	(208.8)
Cash flows from financing activities:		
Additions to long-term debt	1,322.1	2,055.0
Repayments of long-term debt	(644.2)	(1,679.1)
Increase in short-term loans	12.3	20.8
Net payments for debt-related hedging activity	(26.3)	(84.9)
Payment of finance fees	(19.3)	(46.1)
Convertible preferred stock dividends	(10.7)	(10.7)
Issuance of common stock and other	10.9	1.8
Cash provided by financing activities	644.8	256.8
Effect of exchange rate fluctuations on cash	(11.5)	4.1
Increase in cash	138.4	23.8
Cash at beginning of period	163.4	126.4
Cash at end of period	\$ 301.8	\$ 150.2

See accompanying notes.

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

1. Earnings Per Share

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

	Three months ended June 30,	
	2004	2003
Numerator:		
Net earnings	\$ 82.0	\$ 17.0
Convertible preferred stock dividends	(5.4)	(5.4)
Numerator for basic earnings per share—income available to common share owners	\$ 76.6	\$ 11.6
Denominator:		
Denominator for basic earnings per share—weighted average shares outstanding	147,581,928	146,890,616
Effect of dilutive securities:		
Stock options and other	1,662,812	635,392
Denominator for diluted earnings per share—adjusted weighted average shares outstanding	149,244,740	147,526,008
Basic earnings per share	\$ 0.52	\$ 0.08
Diluted earnings per share	\$ 0.52	\$ 0.08

The convertible preferred stock was not included in the computation of diluted earnings per share for the three months ended June 30, 2004 and 2003 since the result would have been antidilutive. Options to purchase 4,621,619 and 7,370,573 weighted average shares of common stock that were outstanding during the three months ended June 30, 2004 and 2003, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

Six months ended June 30,

	2004	2003
Numerator:		
Net earnings	\$ 131.0	\$ 51.4
Convertible preferred stock dividends	(10.7)	(10.7)
Numerator for basic earnings per share—income available to common share owners	\$ 120.3	\$ 40.7
Denominator:		
Denominator for basic earnings per share—weighted average shares outstanding	147,311,716	146,872,124
Effect of dilutive securities:		
Stock options and other	1,370,534	650,194
Denominator for diluted earnings per share—adjusted weighted average shares outstanding	148,682,250	147,522,318
Basic earnings per share	\$ 0.82	\$ 0.28
Diluted earnings per share	\$ 0.81	\$ 0.28

The convertible preferred stock was not included in the computation of diluted earnings per share for the six months ended June 30, 2004 and 2003 since the result would have been antidilutive. Options to purchase 5,878,764 and 7,303,832 weighted average shares of common stock that were outstanding during the six months ended June 30, 2004 and 2003, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

2. Inventories

Major classes of inventory are as follows:

	June 30, 2004	Dec. 31, 2003	June 30, 2003
Finished goods	\$ 979.8	\$ 789.4	\$ 800.0
Work in process	7.2	9.1	8.4
Raw materials	117.3	137.9	128.0
Operating supplies	83.1	73.7	70.2
	\$ 1,187.4	\$ 1,010.1	\$ 1,006.6

3. Long-Term Debt

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

	June 30, 2004	Dec. 31, 2003	June 30, 2003
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	\$ 3.4	\$ —	\$ 291.8
Term Loans:			
A1 Term Loan	460.0	460.0	460.0
B1 Term Loan	840.0	840.0	840.0
C Term Loan	395.0		
C1 Term Loan	300.0		
C2 Term Loan (52 million Euros)	62.7		
D Term Loan	240.0		
Senior Secured Notes:			
8.875%, due 2009	1,000.0	1,000.0	1,000.0
7.75%, due 2011	450.0	450.0	450.0
8.75%, due 2012	625.0	625.0	625.0
Senior Notes:			
7.85%, due 2004		36.5	36.5
7.15%, due 2005	350.0	350.0	350.0
8.10%, due 2007	295.3	301.3	300.0
7.35%, due 2008	244.2	248.8	250.0
8.25%, due 2013	422.8	450.0	450.0
Senior Debentures:			
7.50%, due 2010	242.3	248.3	250.0
7.80%, due 2018	250.0	250.0	250.0
Senior Subordinated Notes:			
10.25%, due 2009 (140 million Euros)	168.9		
9.25%, due 2009 (160 million Euros)	193.1		
Other	112.7	137.0	128.2
	6,655.4	5,396.9	5,681.5
Less amounts due within one year	384.9	63.8	32.2
Long-term debt	\$ 6,270.5	\$ 5,333.1	\$ 5,649.3

On March 15, 2004, the Company's subsidiary borrowers entered into the Second Amended and Restated Secured Credit Agreement (the "Agreement"). The previous Amended and Restated Secured Credit Agreement was amended and restated in order to provide financing for the acquisition of BSN Glasspack, S.A. (see Note 14). The Agreement provides for up to \$3.22 billion of U.S. dollar borrowings and 52 million Euro borrowings, of which \$1.32 billion and 52 million Euros first became available upon the closing of the BSN transaction. The Agreement includes a \$600 million revolving credit facility and a \$460 million A1 term loan, each of which has a final maturity date of April 1, 2007. The Agreement also includes an \$840 million B1 term loan, C term loans totaling \$695 million and 52 million Euros, and a \$240 million D term loan, each of which has a final maturity date of April 1, 2008. An additional term loan of up to \$385 million due April 1, 2008, is available in the event that the assumed BSN Senior Subordinated Notes are tendered as discussed further below.

At June 30, 2004, the Company's subsidiary borrowers had unused credit of \$453.8 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at June 30, 2004 was 4.24%. Including the effects of cross-currency swap agreements related to borrowings under the Agreement by the Company's Australian, European and Canadian subsidiaries, as discussed in Note 10, the weighted average interest rate was 4.83%.

As part of the acquisition of BSN Glasspack (see Note 14), the Company assumed the senior subordinated notes of BSN. The 10.25% senior subordinated notes are due August 1, 2009 and have a face amount of 140.0 million Euros. The 9.25% senior subordinated notes are due August 1, 2009 and have a face amount of 160 million Euros. As part of the change in control provisions of the BSN notes, the Company has made a tender offer for the notes expiring on August 18, 2004.

4. Supplemental Cash Flow Information

	Six months ended June 30,	
	2004	2003
Interest paid in cash	\$ 224.4	\$ 231.6
Income taxes paid in cash	40.9	35.2

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

5. Comprehensive Income

The components of comprehensive income are: (a) net earnings; (b) change in fair value of certain derivative instruments; (c) adjustment of minimum pension liabilities; and (d) foreign currency translation adjustments. Total comprehensive income for the three month periods ended June 30, 2004 and 2003 amounted to \$8.3 million and \$142.1 million, respectively. Total comprehensive income for the six month periods ended June 30, 2004 and 2003 amounted to \$32.0 million and \$219.6 million, respectively.

6. Stock Options

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

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

	Three months ended June 30,	
	2004	2003
Net income:		
As reported	\$ 82.0	\$ 17.0
Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(1.3)	(1.8)
Pro forma	\$ 80.7	\$ 15.2
Basic earnings per share:		
As reported	\$ 0.52	\$ 0.08
Pro forma	0.51	0.07
Diluted earnings per share:		
As reported	0.52	0.08
Pro forma	0.51	0.07

	Six months ended June 30,	
	2004	2003
Net income:		
As reported	\$ 131.0	\$ 51.4
Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(2.9)	(4.0)
Pro forma	\$ 128.1	\$ 47.4
Basic earnings per share:		
As reported	\$ 0.82	\$ 0.28
Pro forma	0.80	0.25
Diluted earnings per share:		
As reported	0.81	0.28
Pro forma	0.79	0.25

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

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

7. Contingencies

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

As of June 30, 2004, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 32,000 plaintiffs and claimants. Based on an analysis of the claims and lawsuits pending as of December 31, 2003, approximately 92% of the plaintiffs and claimants either do not specify the monetary damages sought or, in the case of court filings, claim an amount sufficient to invoke the jurisdiction of the trial court. Fewer than 4% of the plaintiffs specify the maximum of their damages claim to be between \$10 million and \$33 million, while approximately 4% of the plaintiffs claim specific damage amounts ranging between \$6 million to \$122 million. A single suit pending since 1991 involving fewer than 0.1% of the plaintiffs and approximately 60 defendants, claims damages of \$11 billion.

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

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

The Company is also a defendant in other asbestos-related lawsuits or claims involving maritime workers, medical monitoring claimants, co-defendants and property damage claimants. Based upon its past experience, the Company believes that these categories of lawsuits and claims will not involve any

material liability and they are not included in the above description of pending matters or in the following description of disposed matters.

Since receiving its first asbestos claim, the Company, as of June 30, 2004, has disposed of the asbestos claims of approximately 312,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$6,100. Certain of these dispositions have included deferred amounts payable over periods ranging up to seven years. Deferred amounts payable totaled approximately \$93 million at June 30, 2004 (\$87 million at December 31, 2003) and are included in the foregoing average indemnity payment per claim. The Company's indemnity payments for these claims have varied on a per claim basis, and are expected to continue to vary considerably over time. As discussed above, a part of the Company's objective is to achieve, where possible, resolution of asbestos claims pursuant to claims-handling agreements. Under such agreements, qualification by meeting certain illness and exposure criteria has tended to reduce the number of claims presented to the Company that would ultimately be dismissed or rejected due to the absence of impairment or product exposure evidence. The Company expects that as a result, although aggregate spending may be lower, there may be an increase in the per claim average indemnity payment involved in such resolution. In this regard, although the average of such payments has been somewhat higher following the implementation of the claims-handling agreements in the mid-1990s, the annual average amount has not varied materially from year to year in recent years.

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

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

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

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

- b) the extent to which claims are resolved under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;
- c) the extent of decrease or increase in the inventory of pending serious disease cases;
- d) the extent to which the Company is able to successfully defend itself at trial;
- e) the extent of actions by courts to eliminate, reduce or permit the diversion of financial resources for unimpaired claimants and so-called forum shopping;
- f) the extent to which additional defendants with substantial resources and assets are required to participate significantly in the resolution of future asbestos lawsuits and claims;
- g) the number and timing of co-defendant bankruptcies; and
- h) the extent to which the resolution of co-defendant bankruptcies divert resources to unimpaired claimants.

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

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

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

The Company has agreed to a settlement in principle of this litigation and, as a result of that settlement, has recorded an additional charge of \$14.5 million in the second quarter of 2004. The Company believes it has meritorious indemnity and other third party reimbursement claims relating to

a substantial portion of this charge and intends to pursue such claims following the final execution of this settlement, but has not given recognition to these claims in the recording of the foregoing charge.

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

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

8. Segment Information

The Company operates in the rigid packaging industry. The Company has two reportable product segments within the rigid packaging industry: (1) Glass Containers and (2) Plastics Packaging. The Glass Containers segment includes operations in North America, Europe, the Asia Pacific region, and South America. The Plastics Packaging segment consists of two business units—consumer products (plastic containers and closures) and prescription products.

The Company currently evaluates performance and allocates resources based on earnings before interest income, interest expense, provision for income taxes and minority share owners' interests in earnings of subsidiaries ("EBIT") excluding amounts related to certain items that management considers not representative of ongoing operations ("Segment EBIT"). EBIT for product segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. For the Company's U.S. pension plans, net periodic pension cost (credit) has been allocated to product segments. Certain amounts from prior year have been reclassified to conform to current year presentation.

Financial information for the three-month periods ended June 30, 2004 and 2003 regarding the Company's product segments is as follows:

	Glass Containers	Plastics Packaging	Total Product Segments	Eliminations and Other Retained Items	Consolidated Totals
Net sales:					
2004	\$ 1,219.8	\$ 496.5	\$ 1,716.3		\$ 1,716.3
2003	1,074.6	505.0	1,579.6		1,579.6
Segment EBIT:					
2004	\$ 188.9	\$ 59.0	\$ 247.9	\$ (18.0)	\$ 229.9
2003	183.8	54.2	238.0	(19.0)	219.0
Items excluded from Segment EBIT:					
June 30, 2004					
Gain on the sale of certain real property	\$ 20.6		\$ 20.6		\$ 20.6
Charge for certain intellectual property litigation		\$ (14.5)	(14.5)		(14.5)
June 30, 2003					
Loss on the sale of notes receivable	(37.4)		(37.4)		(37.4)

The reconciliation of Segment EBIT to earnings before income taxes and minority share owners' interests in earnings of subsidiaries for the three-month periods ended June 30, 2004 and 2003 is as follows:

	2004	2003
Segment EBIT for reportable segments	\$ 247.9	\$ 238.0
Items excluded from Segment EBIT	6.1	(37.4)
Eliminations and other retained items	(18.0)	(19.0)
Interest expense	(116.2)	(138.4)
Interest income	3.6	6.3
Total	\$ 123.4	\$ 49.5

Financial information for the six-month periods ended June 30, 2004 and 2003 regarding the Company's product segments is as follows:

	Glass Containers	Plastics Packaging	Total Product Segments	Elimina- tions and Other Retained Items	Consoli- dated Totals
Net sales:					
2004	\$ 2,282.1	\$ 979.6	\$ 3,261.7		\$ 3,261.7
2003	2,005.2	960.8	2,966.0		2,966.0
Segment EBIT:					
2004	\$ 354.0	\$ 114.9	\$ 468.9	\$ (49.6)	\$ 419.3
2003	310.2	105.3	415.5	(38.8)	376.7
Items excluded from Segment EBIT:					
June 30, 2004					
Gain on the sale of certain real property	\$ 20.6		\$ 20.6		\$ 20.6
Charge for certain intellectual property litigation		\$ (14.5)	(14.5)		(14.5)
June 30, 2003					
Loss on the sale of notes receivable	(37.4)		(37.4)		(37.4)

The reconciliation of Segment EBIT to earnings before income taxes and minority share owners' interests in earnings of subsidiaries for the six-month periods ended June 30, 2004 and 2003 is as follows:

	2004	2003
Segment EBIT for reportable segments	\$ 468.9	\$ 415.5
Items excluded from Segment EBIT	6.1	(37.4)
Eliminations and other retained items	(49.6)	(38.8)
Interest expense	(230.6)	(249.4)
Interest income	6.9	14.1
Total	\$ 201.7	\$ 104.0

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

	Glass Containers	Plastics Packaging	Total Product Segments	Elimina- tions and Other Retained	Consoli- dated Totals
Total assets:					
June 30, 2004	\$ 8,065.6	\$ 2,002.2	\$ 10,067.8	\$ 1,167.3	\$ 11,235.1
December 31, 2003	6,277.2	2,135.1	8,412.3	1,119.0	9,531.3
June 30, 2003	6,210.1	2,979.6	9,189.7	1,233.7	10,423.4

9. Other Revenue and Other Costs and Expenses

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

Also during the second quarter of 2004, the Company recorded a charge of \$14.5 million (\$9.6 million after tax) for an increase in the estimated probable liability for the resolution of certain intellectual property litigation in other costs and expenses. See Note 7 for additional information on this intellectual property litigation.

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

10. Derivative Instruments

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

At the end of the second quarter of 2004, the Company's subsidiary in Australia had remaining agreements that swap a total of U.S. \$455 million of borrowings into 712 million Australian dollars. These derivative instruments swap both the interest and principal from U.S. dollars to Australian dollars and also swap the interest rate from a U.S.-based rate to an Australian-based rate. These agreements have various maturity dates ranging from September 2004 through May 2005.

As part of the acquisition of BSN, the Company entered into short term hedge contracts for U.S. \$300 million of borrowings into approximately 250 million Euros. These derivative instruments swap the principal amount of the borrowings at BSN used to refinance its existing financial debt to its functional currency. These agreements have a final maturity date of August 2004.

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

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

In the fourth quarter of 2003 and the first quarter of 2004, the Company entered into a series of interest rate swap agreements with a total notional amount of \$1.3 billion that mature from 2007 through 2013. The swaps were executed in order to: (i) convert a portion of the senior notes and senior debentures fixed-rate debt into floating-rate debt; (ii) maintain a capital structure containing appropriate amounts of fixed and floating-rate debt; and (iii) reduce net interest payments and expense in the near-term.

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

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

The following selected information relates to fair value swaps at June 30, 2004 (based on a projected U.S. LIBOR rate of 2.6443%):

	Amount Hedged	Average Receive Rate	Average Spread	Asset (Liability) Recorded
Senior Notes due 2007	\$ 300.0	8.10%	4.5%	\$ (4.7)
Senior Notes due 2008	250.0	7.35%	3.5%	(5.8)
Senior Debentures due 2010	250.0	7.50%	3.2%	(7.7)
Senior Notes due 2013	450.0	8.25%	3.7%	(27.2)
Total	\$ 1,250.0			\$ (45.4)

The Company also uses commodity futures contracts related to forecasted natural gas requirements. The objective of these futures contracts is to limit the fluctuations in prices paid for natural gas and the potential volatility in earnings or cash flows from future market price movements. The Company continually evaluates the natural gas market with respect to its future usage requirements. The Company generally evaluates the natural gas market for the next twelve to eighteen months and continually enters into commodity futures contracts in order to hedge a portion of its usage requirements through the next twelve to eighteen months. At June 30, 2004, the Company had entered into commodity futures contracts for approximately 75% (approximately 9,000,000 MM BTUs) of its expected North American natural gas usage for the last six months of 2004, approximately 44% (approximately 10,560,000 MM BTUs) for the full year of 2005 and approximately 22% (approximately 5,280,000 MM BTUs) for the full year of 2006.

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

The above futures contracts are accounted for as cash flow hedges at June 30, 2004. Hedge accounting is only applied when the derivative is deemed to be highly effective at offsetting anticipated

cash flows of the hedged transactions. For hedged forecasted transactions, hedge accounting will be discontinued if the forecasted transaction is no longer probable to occur, and any previously deferred gains or losses will be recorded to earnings immediately.

At June 30, 2004, an unrealized net gain of \$6.4 million, after tax of \$3.4 million, related to these commodity futures contracts was included in OCI. There was no ineffectiveness recognized during the three and six months ended June 30, 2004 and 2003.

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

11. Restructuring Accruals

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

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

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

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

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

The closing of this factory in December 2003 resulted in the elimination of approximately 107 jobs and a corresponding reduction in the Company's workforce. The Company expects to save

approximately \$9 million per year by closing this factory and eventually moving the production to other locations. The Company anticipates that it will pay out approximately \$10 million in cash related to severance, benefits, plant clean-up, and other plant closing costs. The Company expects that the majority of these costs will be paid out by third quarter of 2004.

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

	<u>Hayward</u>	<u>Milton</u>	<u>Perth</u>	<u>Total</u>
Accrual balance as of December 31, 2003	\$ 12.2	\$ 12.0	\$ 5.4	\$ 29.6
Net cash paid	(0.9)	(2.2)	(2.0)	(5.1)
Other, principally translation		(0.4)	0.3	(0.1)
	<u>11.3</u>	<u>9.4</u>	<u>3.7</u>	<u>24.4</u>
Accrual balance as of March 31, 2004	11.3	9.4	3.7	24.4
Net cash paid	(0.7)	(1.0)	(1.4)	(3.1)
Other, principally translation		0.2	0.7	0.9
	<u>10.6</u>	<u>8.6</u>	<u>3.0</u>	<u>22.2</u>
Remaining accruals related to plant closing charges as of June 30, 2004	\$ 10.6	\$ 8.6	\$ 3.0	\$ 22.2

12. Pensions

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

	<u>2004</u>	<u>2003</u>
Service cost	\$ 13.5	\$ 12.1
Interest cost	46.2	44.8
Expected asset return	(69.9)	(68.7)
Amortization:		
Prior service cost	1.5	1.7
Loss	8.8	2.7
Net amortization	<u>10.3</u>	<u>4.4</u>
Net expense (credit)	<u>\$ 0.1</u>	<u>\$ (7.4)</u>

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

	<u>2004</u>	<u>2003</u>
Service cost	\$ 27.2	\$ 24.1
Interest cost	92.7	89.1
Expected asset return	(140.2)	(137.0)
Amortization:		
Prior service cost	3.1	3.4
Loss	17.6	5.3
Net amortization	<u>20.7</u>	<u>8.7</u>
Net expense (credit)	<u>\$ 0.4</u>	<u>\$ (15.1)</u>

The Company previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute \$33.9 million to its pension plans in 2004. As of June 30, 2004, \$14.9 million of contributions have been made. The Company presently does not expect its projected contributions for the full year of 2004 to be significantly different from the \$33.9 million previously projected.

13. Postretirement Benefits Other Than Pensions

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

	<u>2004</u>	<u>2003</u>
Service cost	\$ 1.0	\$ 0.9
Interest cost	5.7	5.8
Amortization:		
Prior service credit	(1.1)	(3.3)
Loss	1.2	0.9
Net amortization	<u>0.1</u>	<u>(2.4)</u>
Net postretirement benefit cost	<u>\$ 6.8</u>	<u>\$ 4.3</u>

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

	2004	2003
Service cost	\$ 2.1	\$ 1.8
Interest cost	11.4	11.6
Amortization:		
Prior service credit	(2.3)	(6.5)
Loss	2.4	1.8
Net amortization	0.1	(4.7)
Net postretirement benefit cost	\$ 13.6	\$ 8.7

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

14. Acquisition of BSN Glasspack, S.A.

On June 21, 2004, the Company completed the acquisition of BSN Glasspack, S.A. ("BSN") from Glasspack Participations (the "Acquisition"). Total consideration for the Acquisition was approximately \$1.3 billion, including the assumption of debt. BSN was the second largest glass container manufacturer in Europe with manufacturing facilities in France, Spain, Germany and Holland. The Acquisition was financed with borrowings under the Company's Second Amended and Restated Secured Credit Agreement (see Note 3).

The total purchase cost of approximately \$1.3 billion will be allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. Such allocations will be based upon valuations which have not been finalized. Accordingly, the allocation of the purchase consideration included in the accompanying Condensed Consolidated Balance Sheet at June 30, 2004, is preliminary. The Company expects that a substantial portion of the valuation process will be completed by the end of 2004 and the balance will be completed no later than the second quarter of 2005. The accompanying Condensed Consolidated Results of Operations for the three and six month periods ended June 30, 2004, included 10 days of BSN operations.

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

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

	Three months ended June 30, 2004			
	As Reported	BSN Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	\$ 1,716.3	\$ 373.1		\$ 2,089.4
Net earnings	\$ 82.0	\$ 10.8	\$ (1.8)	\$ 91.0
Diluted net earnings per share of common stock	\$ 0.52			\$ 0.57
Six months ended June 30, 2004				
	As Reported	BSN Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	\$ 3,261.7	\$ 752.5		\$ 4,014.2
Net earnings	\$ 131.0	\$ (1.5)	\$ (6.4)	\$ 123.1
Diluted net earnings per share of common stock	\$ 0.81			\$ 0.76
Three months ended June 30, 2003				
	As Reported	BSN Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	\$ 1,579.6	\$ 408.7		\$ 1,988.3
Net earnings	\$ 17.0	\$ 11.2	\$ (4.6)	\$ 23.6
Diluted net earnings per share of common stock	\$ 0.08			\$ 0.12
Six months ended June 30, 2003				
	As Reported	BSN Adjustments	Financing Adjustments	Pro Forma As Adjusted
Net sales	\$ 2,966.0	\$ 743.6		\$ 3,709.6
Net earnings	\$ 51.4	\$ (7.4)	\$ (9.1)	\$ 34.9
Diluted net earnings per share of common stock	\$ 0.28			\$ 0.16

16. Subsequent Events

On July 28, 2004, the Company announced that it has entered into a definitive agreement with Graham Packaging Company based in York, Pa., a portfolio company of The Blackstone Group, to sell its non health-care blow-molded plastic container operations in North America, South America and Europe.

Total consideration for the sale will be approximately \$1.2 billion to be paid in cash at closing. The transaction is expected to close in the fourth quarter, subject to regulatory approvals. The proceeds from the sale will be used to pay down debt.

Included in the sale are 24 plastics manufacturing plants in the U.S., two in Mexico, three in Europe and two in South America, serving consumer products companies in the food, beverage, household, chemical and personal care industries.

As required by FAS No. 144, the Company presently expects that, beginning with the third quarter of 2004, the blow-molded plastic container business will be presented as a discontinued operation. Results of operations for prior periods related to the blow-molded plastic container business will also be reclassified to discontinued operations.

17. Accounts Receivable Securitization Program

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

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

The transfer of the receivables to the fund is deemed to be a sale for U.S. GAAP purposes. The fund assumes all collection risk on the receivables and the transferred receivables have been isolated from BSN Glasspack Services and are no longer controlled by BSN Glasspack Services. The total securitization program cannot exceed 210 million Euros (\$253.4 million USD at June 30, 2004). At June 30, 2004, the Company had \$223.4 million USD of receivables that were sold in this program. For the 10 days ended June 30, 2004, the Company sold approximately \$38.6 million of receivables to the fund and paid interest of approximately \$0.2 million.

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

18. Financial Information for Subsidiary Guarantors and Non-Guarantors

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

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

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

June 30, 2004

Balance Sheet	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Accounts receivable	\$ —	\$ —	\$ 1,042.6	\$ —	\$ 1,042.6
Inventories			1,187.4		1,187.4
Other current assets	59.5		438.9		498.4
Total current assets	59.5	—	2,668.9	—	2,728.4
Investments in and advances to subsidiaries	2,894.8	1,494.8		(4,389.6)	—
Goodwill			2,872.9		2,872.9
Other non-current assets	5.2		1,787.6		1,792.8
Total other assets	2,900.0	1,494.8	4,660.5	(4,389.6)	4,665.7
Property, plant and equipment, net			3,841.0		3,841.0
Total assets	\$ 2,959.5	\$ 1,494.8	\$ 11,170.4	\$ (4,389.6)	\$ 11,235.1
Current liabilities:					
Accounts payable and accrued liabilities	\$ —	\$ —	\$ 1,458.7	\$ —	\$ 1,458.7
Current portion of asbestos liability	170.0				170.0
Short-term loans and long-term debt due within one year	350.0		431.8	(350.0)	431.8
Total current liabilities	520.0	—	1,890.5	(350.0)	2,060.5
Long-term debt	1,050.0		6,270.5	(1,050.0)	6,270.5
Asbestos-related liabilities	537.7				537.7
Other non-current liabilities and minority interests	(186.4)		1,514.6		1,328.2
Capital structure	1,038.2	1,494.8	1,494.8	(2,989.6)	1,038.2
Total liabilities and share owners' equity	\$ 2,959.5	\$ 1,494.8	\$ 11,170.4	\$ (4,389.6)	\$ 11,235.1

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

Balance Sheet	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Accounts receivable	\$ —	\$ —	\$ 876.7	\$ —	\$ 876.7
Inventories			1,006.6		1,006.6
Other current assets	64.8		266.0		330.8
Total current assets	64.8	—	2,149.3	—	2,214.1
Investments in and advances to subsidiaries	3,608.2	2,171.7		(5,779.9)	—
Goodwill			2,839.6		2,839.6
Other non-current assets	7.4		1,912.2		1,919.6
Total other assets	3,615.6	2,171.7	4,751.8	(5,779.9)	4,759.2
Property, plant and equipment, net			3,450.1		3,450.1
Total assets	\$ 3,680.4	\$ 2,171.7	\$ 10,351.2	\$ (5,779.9)	\$ 10,423.4
Current liabilities:					
Accounts payable and accrued liabilities	\$ —	\$ —	\$ 1,051.5	\$ —	\$ 1,051.5
Current portion of asbestos liability	185.0				185.0
Short-term loans and long-term debt due within one year			108.1		108.1
Total current liabilities	185.0	—	1,159.6	—	1,344.6
Long-term debt	1,436.5		5,649.3	(1,436.5)	5,649.3
Asbestos-related liabilities	267.8				267.8
Other non-current liabilities and minority interests	(91.1)		1,370.6		1,279.5
Capital structure	1,882.2	2,171.7	2,171.7	(4,343.4)	1,882.2
Total liabilities and share owners' equity	\$ 3,680.4	\$ 2,171.7	\$ 10,351.2	\$ (5,779.9)	\$ 10,423.4

Results of Operations	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ —	\$ 1,716.3	\$ —	\$ 1,716.3
External interest income			3.6		3.6
Intercompany interest income	27.4	27.4		(54.8)	—
Equity earnings from subsidiaries	82.0	82.0		(164.0)	—
Other equity earnings			9.1		9.1
Other revenue			33.0		33.0
Total revenue	109.4	109.4	1,762.0	(218.8)	1,762.0
Manufacturing, shipping, and delivery			1,393.9		1,393.9
Research, engineering, selling, administrative, and other			128.5		128.5
External interest expense	27.4		88.8		116.2
Intercompany interest expense		27.4	27.4	(54.8)	—
Total costs and expense	27.4	27.4	1,638.6	(54.8)	1,638.6
Earnings before items below	82.0	82.0	123.4	(164.0)	123.4
Provision for income taxes			33.8		33.8
Minority share owners' interests in earnings of subsidiaries			7.6		7.6
Net income	\$ 82.0	\$ 82.0	\$ 82.0	\$ (164.0)	\$ 82.0

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations					
Net sales	\$ —	\$ —	\$ 1,579.6	\$ —	\$ 1,579.6
External interest income			6.3		6.3
Intercompany interest income	31.6	31.6		(63.2)	—
Equity earnings from subsidiaries	17.0	17.0		(34.0)	—
Other equity earnings			7.8		7.8
Other revenue			10.4		10.4
Total revenue	48.6	48.6	1,604.1	(97.2)	1,604.1
Manufacturing, shipping, and delivery			1,270.7		1,270.7
Research, engineering, selling, administrative, and other			145.5		145.5
External interest expense	31.6		106.8		138.4
Intercompany interest expense		31.6	31.6	(63.2)	—
Total costs and expense	31.6	31.6	1,554.6	(63.2)	1,554.6
Earnings before items below	17.0	17.0	49.5	(34.0)	49.5
Provision for income taxes			26.7		26.7
Minority share owners' interests in earnings of subsidiaries			5.8		5.8
Net income	\$ 17.0	\$ 17.0	\$ 17.0	\$ (34.0)	\$ 17.0

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Results of Operations					
Net sales	\$ —	\$ —	\$ 3,261.7	\$ —	\$ 3,261.7
External interest income			6.9		6.9
Intercompany interest income	55.2	55.2		(110.4)	—
Equity earnings from subsidiaries	131.0	131.0		(262.0)	—
Other equity earnings			14.7		14.7
Other revenue			45.9		45.9
Total revenue	186.2	186.2	3,329.2	(372.4)	3,329.2
Manufacturing, shipping, and delivery			2,654.0		2,654.0
Research, engineering, selling, administrative, and other			242.9		242.9
External interest expense	55.2		175.4		230.6
Intercompany interest expense		55.2	55.2	(110.4)	—
Total costs and expense	55.2	55.2	3,127.5	(110.4)	3,127.5
Earnings before items below	131.0	131.0	201.7	(262.0)	201.7
Provision for income taxes			57.2		57.2
Minority share owners' interests in earnings of subsidiaries			13.5		13.5
Net income	\$ 131.0	\$ 131.0	\$ 131.0	\$ (262.0)	\$ 131.0

Results of Operations	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ —	\$ 2,966.0	\$ —	\$ 2,966.0
External interest income			14.1		14.1
Intercompany interest income	64.7	64.7		(129.4)	—
Equity earnings from subsidiaries	51.4	51.4		(102.8)	—
Other equity earnings			13.6		13.6
Other revenue			22.3		22.3
Total revenue	116.1	116.1	3,016.0	(232.2)	3,016.0
Manufacturing, shipping, and delivery			2,410.8		2,410.8
Research, engineering, selling, administrative, and other			251.8		251.8
External interest expense	64.7		184.7		249.4
Intercompany interest expense		64.7	64.7	(129.4)	—
Total costs and expense	64.7	64.7	2,912.0	(129.4)	2,912.0
Earnings before items below	51.4	51.4	104.0	(102.8)	104.0
Provision for income taxes			43.9		43.9
Minority share owners' interests in earnings of subsidiaries			8.7		8.7
Net income	\$ 51.4	\$ 51.4	\$ 51.4	\$ (102.8)	\$ 51.4

Cash Flows	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ (95.5)	\$ —	\$ 316.2	\$ —	\$ 220.7
Cash used in investing activities			(715.6)		(715.6)
Cash provided by financing activities	95.5		549.3		644.8
Effect of exchange rate change on cash			(11.5)		(11.5)
Net change in cash	—	—	138.4	—	138.4
Cash at beginning of period			163.4		163.4
Cash at end of period	\$ —	\$ —	\$ 301.8	\$ —	\$ 301.8

Cash Flows	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ (95.1)	\$ —	\$ 66.8	\$ —	\$ (28.3)
Cash used in investing activities			(208.8)		(208.8)
Cash provided by financing activities	95.1		161.7		256.8
Effect of exchange rate change on cash			4.1		4.1
Net change in cash	—	—	23.8	—	23.8
Cash at beginning of period			126.4		126.4
Cash at end of period	\$ —	\$ —	\$ 150.2	\$ —	\$ 150.2

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**Results of Operations—Second Quarter 2004 compared with Second Quarter 2003***Net Sales*

The Company's net sales by segment (dollars in millions) for the second quarter of 2004 and 2003 are presented in the following table. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

	2004	2003
Glass Containers	\$ 1,219.8	\$ 1,074.6
Plastics Packaging	496.5	505.0
Segment and consolidated net sales	\$ 1,716.3	\$ 1,579.6

Consolidated net sales for the second quarter of 2004 increased \$136.7 million, or 8.7%, to \$1,716.3 million from \$1,579.6 million in the second quarter of 2003.

Net sales of the Glass Containers segment increased \$145.2 million, or 13.5%, over the second quarter of 2003. In North America, sales in the second quarter of 2004 were \$9.3 million higher than sales in the second quarter of 2003. The higher sales resulted from increased selling prices and a more favorable product sales mix as unit shipments declined by about 3%. The decrease in unit shipments was more than accounted for by the previously disclosed loss of a beverage container customer. However, shipments of beer containers in the quarter increased by approximately 4% from the second quarter of 2003 primarily due to overall warmer weather conditions in the U.S. and Canada during the second quarter of 2004 as compared to the second quarter of 2003. Shipments of containers for wine and spirits were higher for the second quarter of 2004; however shipments of containers for tea, juice and other beverages were lower. The combined U.S. dollar sales of the segment's operations outside of North America increased \$135.9 million over the second quarter of 2003. The increase resulted from a number of factors, including: (1) a 4% increase in unit shipments in the European businesses as well as the addition of approximately \$51 million in sales from the acquired BSN businesses; (2) an 8% increase in unit shipments and improved prices in South America, particularly in Venezuela and Ecuador; and (3) a 6% increase in unit shipments in most of the Asia Pacific region, particularly Australia, New Zealand and China. The effects of changing foreign currency exchange rates increased reported U.S. dollar sales of the segment's operations in Europe and the Asia Pacific region by approximately \$33 million. The effects of changing foreign currency exchange rates decreased reported U.S. dollar sales of the segment's operations in South America by approximately \$7 million.

Net sales of the Plastics Packaging segment decreased \$8.5 million, or 1.7%, from the second quarter of 2003. Despite shipments increasing by approximately 4% overall, led by increased shipments of plastic containers for health care, water and juices, and increased shipments of closures for beverages, health care, food and household products, the lower sales reflected modestly lower selling prices for several of the segment's container products and the absence of sales from certain closures assets that were divested in the fourth quarter of 2003. The absence of sales from these assets reduced quarter over quarter sales by approximately \$14 million. The effects of higher resin cost pass-throughs increased sales in the second quarter of 2004 by approximately \$2 million compared to the second quarter of 2003. In addition, the effects of changing foreign currency exchange rates increased reported U.S. dollar sales of the segment's operations in Europe and the Asia Pacific region by approximately \$4 million. The effects of changing foreign currency exchange rates decreased reported U.S. dollar sales of the segment's operations in South America by approximately \$2 million.

EBIT

The Company evaluates performance and allocates resources based on EBIT, excluding amounts related to certain items that management considers not representative of ongoing operations ("Segment EBIT").

The Company's Segment EBIT results (dollars in millions) for the second quarter of 2004 and 2003 are presented in the following table. Certain amounts from prior year have been reclassified to conform to current year presentation. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

	2004	2003
Glass Containers	\$ 188.9	\$ 183.8
Plastics Packaging	59.0	54.2
Eliminations and other retained items	(18.0)	(19.0)

Segment EBIT of the Glass Containers segment for the second quarter of 2004 increased \$5.1 million, or 2.8%, to \$188.9 million, compared with Segment EBIT of \$183.8 million in the second quarter of 2003. In North America, EBIT for the second quarter of 2004 decreased \$14.2 million from the second quarter of 2003. The benefits of higher selling prices and a more favorable product sales mix were more than offset by a number of unfavorable effects, including: (1) lower production resulting from increased furnace repair activity this year and to control inventories consistent with the Company's working capital goals; (2) higher repair and maintenance costs; (3) higher natural gas costs; (4) increased freight expense reflecting higher fuel costs; (5) a \$4.5 million reduction in pension income; and (6) the write-down of obsolete and slow-moving machine repair parts in connection with the Company's working capital review. Also contributing to this decline was a 3% decline in unit shipments, principally as the result of lower shipments of beverage containers. This decline in shipments of beverage containers was partially offset by increased shipments of containers for beer, wine, and liquor. The combined U.S. dollar EBIT of the segment's operations outside North America increased \$19.3 million over the second quarter of 2003. The increase was partially attributed to overall increased unit shipments in Europe, South America, and the Asia Pacific region. Also contributing to the increase was improved manufacturing performance in Europe, South America and in the Asia Pacific region and higher prices in South America. These increases were partially offset by increased energy costs totaling approximately \$2 million in Europe and the Asia Pacific region and the write-down of obsolete and slow-moving machine repair parts in connection with the Company's working capital review. The EBIT contribution from BSN for the second quarter of 2004 includes a reduction in gross profit of \$4.6 million related to the step-up of BSN finished goods inventory as required by SFAS No. 141. The effects of changing foreign currency exchange rates increased reported U.S. dollar EBIT of the segment's operations in Europe and the Asia Pacific region by approximately \$6 million. The effects of changing foreign currency exchange rates decreased reported U.S. dollar EBIT of the segment's operations in South America by approximately \$2 million.

Segment EBIT of the Plastics Packaging segment for the second quarter of 2004 increased \$4.8 million, or 8.9%, to \$59.0 million compared with Segment EBIT of \$54.2 million in the second quarter of 2003. The increase is primarily attributable to improved manufacturing performance, increased production and higher unit shipments. Unit shipments increased by approximately 4% overall, led by increased shipments of plastic containers for health care, water and juices, and increased shipments of closures for beverages, health care, food and household products. These increases were partially offset by a less favorable product mix and lower selling prices for several of the segment's container products. Other factors that unfavorably affected EBIT in the second quarter of 2004 compared to the second quarter of 2003 were the absence of sales from certain closures assets that were divested in the fourth quarter of 2003 and lower pension income of approximately \$1.4 million.

Eliminations and other retained items for the second quarter of 2004 were \$1.0 million lower than the second quarter of 2003.

Interest Expense

Interest expense decreased to \$116.2 million in the second quarter of 2004 from \$138.4 million in the second quarter of 2003. Excluding the effects of note repurchase premiums and the write-off of finance fees in the second quarter of 2003 totaling \$16.8 million; interest expense decreased \$5.4 million. The lower interest expense was principally the result of savings from the December 2003 repricing of the Secured Credit Agreement and approximately \$7 million in interest savings as a result of the Company's fixed-to-floating interest rate swap on a portion of its fixed-rate debt.

Minority Share Owners' Interest in Earnings of Subsidiaries

Minority share owners' interest in earnings of subsidiaries for the second quarter of 2004 was \$7.6 million compared to \$5.8 million for the second quarter of 2003. The increase is primarily attributed to higher earnings from the Company's operations in Venezuela.

Net Earnings

For the second quarter of 2004, the Company recorded net earnings of \$82.0 million compared to net earnings of \$17.0 million for the second quarter of 2003. The results for the second quarter of 2004 included a gain of \$20.6 million (\$14.5 million after tax) for the sale of certain real property and a charge of \$14.5 million (\$9.1 million after tax) relating to the settlement of certain intellectual property litigation. The results for the second quarter of 2003 included a loss of \$37.4 million (pretax and after tax) from the sale of long-term notes receivable and additional interest charges of \$16.8 million (\$10.7 million after tax) for early retirement of debt, principally note repurchase premiums.

Results of Operations—First six months of 2004 compared with first six months of 2003

Net Sales

The Company's net sales by segment (dollars in millions) for the first six months of 2004 and 2003 are presented in the following table. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

	2004	2003
Glass Containers	\$ 2,282.1	\$ 2,005.2
Plastics Packaging	979.6	960.8
Segment and consolidated net sales	\$ 3,261.7	\$ 2,966.0

Consolidated net sales for the first six months of 2004 increased \$295.7 million, or 10.0%, to \$3,261.7 million from \$2,966.0 million for the first six months of 2003.

Net sales of the Glass Containers segment increased \$276.9 million, or 13.8%, over the first six months of 2003. In North America, sales in the first six months of 2004 were \$21.4 million higher than sales in the first six months of 2003. The higher sales resulted from increased selling prices and a more favorable product sales mix as unit shipments declined by about 1%. The decrease in unit shipments was more than accounted for by the previously disclosed loss of a beverage container customer. However, shipments of beer containers increased by approximately 5% from the first six months of 2003 primarily due to overall warmer weather conditions in the U.S. and Canada during the first six months of 2004 as compared to the first six months of 2003. Shipments of containers for wine and spirits were also higher for the first six months of 2004; however, shipments of containers for tea, juice,

and other beverages were lower. The combined U.S. dollar sales of the segment's operations outside of North America increased \$255.5 million over the first six months of 2003. The increase resulted from a number of factors, including: (1) a 5% increase in unit shipments in the European businesses as well as the addition of approximately \$51 million in sales from the acquired BSN businesses; (2) a 15% increase in unit shipments and improved prices in South America, particularly in Venezuela and Ecuador; and (3) a 6% increase in unit shipments in most of the Asia Pacific region, particularly Australia, New Zealand and China. The increased shipments in Venezuela were primarily related to the non-recurrence of the national strike in Venezuela that began in early December 2002 and continued into the first quarter of 2003. The strike caused energy supply curtailments which forced the Company to temporarily idle its two plants in that country during the first quarter of 2003. The effects of changing foreign currency exchange rates increased reported U.S. dollar sales of the segment's operations in Europe and the Asia Pacific region by approximately \$105 million. The reported U.S. dollar sales of the segment's operations in South America was not significantly affected by the effects of changing foreign currency exchange rates compared to the first six months of 2003.

Net sales of the Plastics Packaging segment increased \$18.8 million, or 2.0%, over the first six months of 2003. Unit shipments increased by approximately 7% overall, led by increased shipments of plastic containers for health care, water and juices, and increased shipments of closures for beverages, health care, food and household products. These increases were mostly offset by lower selling prices for several of the segment's container products and the absence of sales from certain closures assets that were divested in the fourth quarter of 2003. The absence of sales from these assets reduced period over period sales by approximately \$30 million. The effects of higher resin cost pass-throughs increased sales in the first six months of 2004 by approximately \$16 million compared to the first six months of 2003. In addition, the effects of changing foreign currency exchange rates increased reported U.S. dollar sales of the segment's operations in Europe and the Asia Pacific region by approximately \$16 million. The effects of changing foreign currency exchange rates decreased reported U.S. dollar sales of the segment's operations in South America by approximately \$2 million.

EBIT

The Company evaluates performance and allocates resources based on EBIT, excluding amounts related to certain items that management considers not representative of ongoing operations ("Segment EBIT").

The Company's Segment EBIT results (dollars in millions) for the first six month of 2004 and 2003 are presented in the following table. Certain amounts from prior year have been reclassified to conform to current year presentation. For further information, see Segment Information included in Note 8 to the Condensed Consolidated Financial Statements.

	2004	2003
Glass Containers	\$ 354.0	\$ 310.2
Plastics Packaging	114.9	105.3
Eliminations and other retained items	(49.6)	(38.8)

Segment EBIT of the Glass Containers segment for the first six months of 2004 increased \$43.8 million, or 14.1%, to \$354.0 million, compared with Segment EBIT of \$310.2 million in the first six months of 2003. In North America, EBIT for the first six months of 2004 decreased \$5.4 million from the first six months of 2003. The benefits of higher selling prices, a more favorable product sales mix and fixed cost savings resulting from two plant closings in the last half of 2003 were more than offset by a number of unfavorable effects including: (1) lower production resulting from increased furnace repair activity this year and to control inventories consistent with the Company's working capital goals; (2) higher natural gas costs; (3) increased freight expense reflecting higher fuel costs; (4) a \$9.1 million reduction in pension income; and (5) the write-down of obsolete and slow-moving

machine repair parts in connection with the Company's working capital review. Also contributing to this decline was a 1% decline in unit shipments, principally as the result of lower shipments of beverage containers. This decline in shipments of beverage containers was partially offset by increased shipments of containers for beer, wine, and liquor. The combined U.S. dollar EBIT of the segment's operations outside North America increased \$49.2 million over the first six months of 2003. The increase was partially attributed to overall increased unit shipments in Europe, South America, and the Asia Pacific region. Also contributing to the increase was improved manufacturing performance and higher prices in Europe, South America and in the Asia Pacific region as well as the absence of the national strike in Venezuela. South American operations in the first six months of 2004 compared favorably to the prior year because of the non-recurrence of the national strike in Venezuela that began in early December 2002 and continued into the first quarter of 2003. The strike caused energy supply curtailments which forced the Company to temporarily idle its two plants in that country during the first quarter of 2003. These increases were partially offset by increased energy costs totaling approximately \$9 million in Europe and the Asia Pacific region and the write-down of obsolete and slow-moving machine repair parts in connection with the Company's working capital review. The EBIT contribution from BSN for the first six months of 2004 includes a reduction in gross profit of \$4.6 million related to the step-up of BSN finished goods inventory as required by SFAS No. 141. The effects of changing foreign currency exchange rates increased reported U.S. dollar EBIT of the segment's operations in Europe and the Asia Pacific region by approximately \$18 million. The reported U.S. dollar EBIT of the segment's operations in South America was not significantly affected by the effects of changing foreign currency exchange rates compared to the first six months of 2003.

Segment EBIT of the Plastics Packaging segment for the first six months of 2004 increased \$9.6 million, or 9.1%, to \$114.9 million compared with Segment EBIT of \$105.3 million for the first six months of 2003. The increase is primarily attributable to improved manufacturing performance, increased production and higher unit shipments. Unit shipments increased by approximately 7% overall, led by increased shipments of plastic containers for health care, water and juices, and increased shipments of closures for beverages, health care, food and household products. These increases were partially offset by a less favorable product mix and lower selling prices for several of the segment's container products. Other factors that unfavorably affected EBIT in the first six months of 2004 compared to the first six months of 2003 were the absence of sales from certain closures assets that were divested in the fourth quarter of 2003 and lower pension income of approximately \$2.8 million.

Eliminations and other retained items for the first six months of 2004 were \$10.8 million higher than the first six months of 2003. A \$1.0 million reduction in pension income, higher legal and professional services costs in the first quarter of 2004 resulting in part from compliance with the Sarbanes-Oxley Act of 2002 and higher retention of property and casualty losses were the primary reasons for the increase.

Interest Expense

Interest expense decreased to \$230.6 million for the first six months of 2004 from \$249.4 million for the first six months of 2003. Excluding the effects of note repurchase premiums and the write-off of finance fees in the first six months of 2003 totaling \$16.8 million; interest expense decreased \$2.0 million. The lower interest expense was principally the result of savings from the December 2003 repricing of the Secured Credit Agreement and approximately \$12 million in interest savings as a result of the Company's fixed-to-floating interest rate swap on a portion of its fixed-rate debt. These decreases were mostly offset by the issuance of fixed rate notes totaling \$900 million in May 2003. The proceeds from the notes were used to repay lower cost, variable rate debt borrowed under the Company's Secured Credit Agreement.

Minority Share Owners' Interest in Earnings of Subsidiaries

Minority share owners' interest in earnings of subsidiaries for the first six months of 2004 was \$13.5 million compared to \$8.7 million for the first six months of 2003. The increase is primarily attributed to higher earnings from the Company's operations in Venezuela.

Provision for Income Taxes

The Company's effective tax rate in the first six months of 2004 was 28.9% compared with 29.0% for the full year 2003 (excluding separately taxed items).

Net Earnings

For the first six months of 2004, the Company recorded net earnings of \$131.0 million compared to net earnings of \$51.4 million for the first six months of 2003. The results for the first six months of 2004 included a gain of \$20.6 million (\$14.5 million after tax) for the sale of certain real property and a charge of \$14.5 million (\$9.1 million after tax) relating to the settlement of certain intellectual property litigation. The results for first six months of 2003 included a loss of \$37.4 million (pretax and after tax) from the sale of long-term notes receivable and additional interest charges of \$16.8 million (\$10.7 million after tax) for early retirement of debt, principally note repurchase premiums.

Acquisition of BSN Glasspack, S.A.

On June 21, 2004, the Company completed the acquisition of BSN Glasspack, S.A. ("BSN") from Glasspack Participations (the "Acquisition"). Total consideration for the Acquisition was approximately \$1.3 billion, including the assumption of debt. BSN was the second largest glass container manufacturer in Europe with manufacturing facilities in France, Spain, Germany and Holland. The Acquisition was financed with borrowings under the Company's Second Amended and Restated Secured Credit Agreement (see Note 3).

The total purchase cost of approximately \$1.3 billion will be allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. Such allocations will be based upon valuations which have not been finalized. Accordingly, the allocation of the purchase consideration included in the accompanying Condensed Consolidated Balance Sheet at June 30, 2004, is preliminary. The Company's results for the three and six month periods ended June 30, 2004, included 10 days of BSN operations. The Company's 2004 results include net sales and Segment EBIT contributions of approximately \$51 million and \$0.4 million, respectively, from this newly acquired business. The \$0.4 million Segment EBIT contribution includes a reduction in gross profit of \$4.6 million related to the step-up of BSN finished goods inventory as required by SFAS No. 141. The Company expects that the balance of this step-up of BSN finished goods inventory will be recorded as increased cost of sales during the third and fourth quarters of 2004 which will reduce gross profit by an estimated additional \$26 million.

The Company expects interest expense to increase by approximately \$94 million on an annual basis resulting from the acquisition of BSN. The incremental interest expense included in the Company's second quarter results related to BSN for the ten day period ended June 30, 2004, was approximately \$2.8 million.

Restructuring and Sale of Blow-Molded Plastic Container Business

The Company has undertaken a restructuring of its blow-molded plastic container business. Pursuant to that restructuring, the Company has determined that it will continue to operate its blow-molded plastic container business serving health care customers and combine that business with its Closure and Prescription Products businesses.

On July 28, 2004, the Company announced that it has entered into a definitive agreement with Graham Packaging Company based in York, Pa., a portfolio company of The Blackstone Group, to sell its remaining blow-molded plastic container operations in North America, South America and Europe.

Total consideration for the sale will be approximately \$1.2 billion to be paid in cash at closing. The transaction is expected to close in the fourth quarter, subject to regulatory approvals. The proceeds from the sale will be used to pay down debt.

Included in the sale are 24 plastics manufacturing plants in the U.S., two in Mexico, three in Europe and two in South America, serving consumer products companies in the food, beverage, household, chemical and personal care industries.

As required by FAS No. 144, the Company presently expects that, beginning with the third quarter of 2004, the blow-molded plastic container business will be presented as a discontinued operation. Results of operations for prior periods related to the blow-molded plastic container business will also be reclassified to discontinued operations.

Capital Resources and Liquidity

The Company's total debt at June 30, 2004 was \$6.70 billion, compared to \$5.43 billion at December 31, 2003 and \$5.76 billion at June 30, 2003.

On March 15, 2004, the Company's subsidiary borrowers entered into the Second Amended and Restated Secured Credit Agreement (the "Agreement"). The previous Amended and Restated Secured Credit Agreement was amended and restated in order to provide financing for the acquisition of BSN Glasspack, S.A. (see Note 14). The Agreement provides for up to \$3.22 billion of U.S. dollar borrowings and 52 million Euro borrowings, of which \$1.32 billion and 52 million Euros first became available upon the closing of the BSN transaction. The Agreement includes a \$600 million revolving credit facility and a \$460 million A1 term loan, each of which has a final maturity date of April 1, 2007. The Agreement also includes an \$840 million B1 term loan, C term loans totaling \$695 million and 52 million Euros, and a \$240 million D term loan, each of which has a final maturity date of April 1, 2008. An additional term loan of up to \$385 million due April 1, 2008, is available in the event that the assumed BSN Senior Subordinated Notes are tendered by August 18, 2004 in response to the tender offer as required by the change in control provision of the BSN notes.

At June 30, 2004, the Company's subsidiary borrowers had unused credit of \$453.8 million available under the Agreement.

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

Cash provided by (utilized in) operating activities was \$220.7 million for the first six months of 2004 compared to \$(28.3) million for the first six months of 2003, an improvement of \$249.0 million. Cash required for working capital in the first six months of 2004 was \$216.7 million less than the first six months of 2003. Inventories in North American plastic container operations were lower than prior year as a result of higher shipments. Inventories in North American glass container operations were lower than prior year as a result of tighter management of inventory levels as part of the Company's overall focus on working capital improvement. Inventory levels in the Australian and European glass container operations were also lower, as compared to the prior year. These lower inventories are part of the Company's focus on working capital management to improve cash flow.

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

Off-Balance Sheet Arrangements

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

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

The transfer of the receivables to the fund is deemed to be a sale for U.S. GAAP purposes. The fund assumes all collection risk on the receivables and the transferred receivables have been isolated from BSN Glasspack Services and are no longer controlled by BSN Glasspack Services. The total securitization program cannot exceed 210 million Euros (\$253.4 million USD at June 30, 2004). At June 30, 2004, the Company had \$223.4 million USD of receivables that were sold in this program. For the 10 days ended June 30, 2004, the Company sold approximately \$38.6 million of receivables to the fund and paid interest of approximately \$0.2 million.

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

Critical Accounting Estimates

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

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

Pension Benefit Plans

The Company recorded pension expense totaling approximately \$0.4 million for the first six months of 2004 and pretax pension credits of \$15.7 million for the first six months of 2003 from its principal defined benefit pension plans. The 2004 decrease in pretax pension credits is attributed to several factors discussed below.

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

Future effects on reported results of operations depend on economic conditions and investment performance. For example, a one-half percentage point change in the actuarial assumption regarding the expected return on assets would result in a change of approximately \$16 million in pretax pension credits for the full year 2004. In addition, changes in external factors, including the fair values of plan

assets and the discount rates used to calculate plan liabilities, could result in possible future balance sheet recognition of additional minimum pension liabilities.

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

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

Even if the fair values of the U.S. plans' assets are less than ABO at December 31, 2004, however, the Company believes it will not be required to make cash contributions to the U.S. plans for at least several years.

Contingencies and Litigation

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

The Company completed a comprehensive review of its asbestos-related liabilities and costs in connection with finalizing and reporting its results for 2003, and expects to conduct a comprehensive review annually thereafter, unless significant changes in trends or new developments warrant an earlier review. If the results of the annual comprehensive review indicate that the existing amount of the accrued liability is insufficient to cover its estimated costs, then the Company will record an appropriate charge to increase the accrued liability.

The Company's estimates are based on a number of factors as described further in Note 7 to the Condensed Consolidated Financial Statements.

Goodwill

As required by FAS No. 142, "Goodwill and Other Intangibles," the Company evaluates goodwill annually (or more frequently if impairment indicators arise) for impairment. The Company conducts its evaluation as of October 1 of each year. Goodwill impairment testing is performed using the business

enterprise value ("BEV") of each reporting unit which is calculated as of a measurement date by determining the present value of debt-free, after tax future cash flows, discounted at the weighted average cost of capital of a hypothetical third-party buyer. This BEV is then compared to the book value of each reporting unit as of the measurement date to assess whether an impairment exists.

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

If the Company's projected debt-free, after tax cash flows were substantially lower, or if the assumed weighted average cost of capital were substantially higher, the testing performed as of October 1, 2003, may have indicated an impairment of one or more of the Company's other reporting units and, as a result, the related goodwill would also have been written down. However, based on the Company's testing as of that date, modest changes in the projected cash flows or cost of capital would not have created impairment in other reporting units. For example, if projected debt-free, after tax cash flows had been decreased by 5%, or alternatively if the weighted average cost of capital had been increased by 5%, the resulting lower BEV's would still have exceeded the book value of each reporting unit by a significant margin in all cases except for the Asia Pacific Glass reporting unit. Because the BEV for the Asia Pacific Glass reporting unit exceeded its book value by approximately 5%, the results of the impairment testing could be negatively affected by relatively modest changes in the assumptions and projections. At December 31, 2003, the goodwill of the Asia Pacific Glass reporting unit accounted for approximately \$960 million of the Company's consolidated goodwill. The Company will monitor conditions throughout 2004 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 2004, 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.

Deferred Tax Assets

FAS No. 109, "Accounting for Income Taxes," requires that a valuation allowance be recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are determined separately for each tax jurisdiction in which the company conducts its operations or otherwise incurs taxable income or losses. In the United States, the Company has recorded significant deferred tax assets, the largest of which relate to the accrued liability for asbestos-related costs that are not deductible until paid and to its net operating loss carryforwards. The deferred tax assets are partially offset by deferred tax liabilities, the most significant of which relates to the prepaid pension balance. The Company has recorded a valuation allowance for its U.S. tax credit carryforwards, however, it has not recorded a valuation allowance for the balance of its net U.S. deferred tax assets. The Company believes that its projected taxable income in the U.S., along with a number of prudent and feasible tax planning strategies, will be sufficient to utilize the net operating losses prior to their expiration. If the Company is unable to generate sufficient income from its U.S. operations or implement the required tax planning strategies, or if the Company is required to eliminate deferred tax liabilities in connection with a write off of its pension balance, then a valuation allowance will have to be provided. It is not possible to estimate the amount of the adjustment that may be required, however, based on recorded deferred taxes at December 31, 2003, the related non-cash tax charge could range from approximately \$90 million to \$425 million. The Company will assess the need to provide a valuation allowance annually or more frequently, if necessary.

Deferred tax assets and liabilities are calculated by applying existing statutory tax rates to the temporary differences between amounts reported in the financial statements and those reported in the

tax return and to the pretax amount of loss carryforwards. During 2003, legislation was proposed in the U.S. that would, among other things, reduce the rate of tax on corporate income. If such legislation is enacted, the Company will be required to revalue its deferred tax assets and liabilities using lower rates. Because the deferred tax accounts are in a net asset position, the result would be a charge to earnings through an increase in the provision for taxes. Based on the Company's U.S. net deferred tax asset position at December 31, 2003, a 1% decrease in the corporate income tax rate would require an increase in the tax provision of approximately \$1 million.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

On March 15, 2004, the Company's subsidiary borrowers entered into the Second Amended and Restated Secured Credit Agreement (the "Agreement"). The previous Amended and Restated Secured Credit Agreement was amended and restated in order to provide financing for the acquisition of BSN Glasspack, S.A. (see Note 14). The Agreement provides for up to \$3.22 billion of U.S. dollar borrowings and 52 million Euro borrowings, of which \$1.32 billion and 52 million Euros first became available upon the closing of the BSN transaction. The Agreement includes a \$600 million revolving credit facility and a \$460 million A1 term loan, each of which has a final maturity date of April 1, 2007. The Agreement also includes an \$840 million B1 term loan, C term loans totaling \$695 million and 52 million Euros, and a \$240 million D term loan, each of which has a final maturity date of April 1, 2008. An additional term loan of up to \$385 million due April 1, 2008, is available in the event that the assumed BSN Senior Subordinated Notes are tendered by August 18, 2004 in response to the tender offer as required by the change in control provision of the BSN notes. Interest on all borrowings under the Agreement is determined by reference to short-term rates.

All borrowings under the Agreement, with the exception of the Euro C term loan mentioned above, are denominated in U.S. dollars. As described in Note 10 to the financial statements, certain amounts borrowed under the Agreement by foreign subsidiaries have been swapped into the subsidiaries' functional currencies.

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

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) the Company's ability to complete planned divestitures on the terms and conditions and within the time frames currently anticipated, (2) foreign currency fluctuations relative to the U.S. dollar, (3) changes in capital availability or cost, including interest rate fluctuations, (4) the general political, economic and competitive conditions in markets and countries where the Company has operations, including disruptions in the supply chain, competitive pricing pressures, inflation or deflation, and changes in tax rates and laws, (5) consumer preferences for alternative forms of packaging, (6) fluctuations in raw material and labor costs, (7) availability of raw materials, (8) costs and availability of energy, (9) transportation costs, (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 that are beyond the control of the Company, including events related to 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 intend to update any particular forward looking statements contained in this document.

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, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

As required by SEC Rule 13a-15(b), 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 quarter 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.

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.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

For further information on legal proceedings, see Note 7 to the Condensed Consolidated Financial Statements, "Contingencies," that is included in Part I of this Report and is incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Security Holders.

The Annual Meeting of Owens-Illinois' share owners was held on May 12, 2004. The following proposals were submitted to a vote by the share owners:

Proposal 1—For the Election of Directors:

Each of the nominees for a three-year term on the Company's Board of Directors was elected by vote of the share owners as follows:

Name	Aggregate Vote		
	For	Withheld	Abstentions
James H. Greene, Jr.	118,801,450	23,330,681	0
Robert J. Dineen	133,774,002	8,358,129	0
Thomas L. Young	120,585,382	21,546,749	0

Proposal 2—For the approval of the 2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc.:

Aggregate Vote			
For	Against	Abstentions	Broker Non-Votes
126,360,284	5,341,415	88,586	10,341,846

Proposal 3—For the approval of the Incentive Bonus Plan:

Aggregate Vote			
For	Against	Abstentions	Broker Non-Votes
125,907,165	5,796,043	87,007	10,341,846

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

Exhibit 2.1	Share Purchase Agreement dated March 16, 2004 by and between Owens-Illinois, Inc., Glasspack Participations, S.A. and the other parties named therein regarding the acquisition of BSN Glasspack, S.A.
Exhibit 10.1	2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc.
Exhibit 10.2	Owens-Illinois, Inc. Incentive Bonus Plan
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends
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

(b) Reports on Form 8-K:

On April 20, 2004, the Registrant furnished a Form 8-K (Item 12) which included a press release dated April 20, 2004 setting forth its results of operations for the quarter ended March 31, 2004.

On June 21, 2004, the Registrant filed a Form 8-K (Item 5) which included a press release dated June 21, 2004 announcing that it had completed the acquisition of BSN Glasspack, S.A.

* 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, INC.

Date August 9, 2004

By /s/ MATTHEW G. LONGTHORNE

Matthew G. Longthorne
Controller (Principal Accounting Officer)

INDEX TO EXHIBITS

Exhibits

- 2.1 Share Purchase Agreement dated March 16, 2004 by and between Owens-Illinois, Inc., Glasspack Participations, S.A. and the other parties named therein regarding the acquisition of BSN Glasspack, S.A.
 - 10.1 2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc.
 - 10.2 Owens-Illinois, Inc. Incentive Bonus Plan
 - 12 Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends
 - 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - 32.1* Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
 - 32.2* Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350
-

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QuickLinks

Part I—FINANCIAL INFORMATION

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

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

[OWENS-ILLINOIS, INC. CONDENSED CONSOLIDATED BALANCE SHEETS \(Dollars in millions, except per share amounts\)](#)

[OWENS-ILLINOIS, INC. CONDENSED CONSOLIDATED CASH FLOWS \(Dollars in millions\)](#)

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

PART II—OTHER INFORMATION

[SIGNATURES](#)

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SHARE PURCHASE AGREEMENT

BY AND BETWEEN

O-I EUROPE SAS

OWENS-ILLINOIS, INC.

AND

GLASSPACK PARTICIPATIONS, S.A.

MR. SANTIAGO RAMIREZ

MR. JOSE MIRANDA

MR. JEAN-JACQUES LONJARET

MR. JEAN-MARC ARRAMBOURG

MR. JEAN-YVES SCHAPIRO

MR. BERTRAND SCHAPIRO

MR. FRANCOIS SCHAPIRO

GLASSPACK PARTENAIRES S.á.r.l

March 16, 2004

**Willkie Farr & Gallagher LLP
21-23, rue de la Ville l'Eveque
75008 Paris**

SHARE PURCHASE AGREEMENT

This share purchase agreement ("**Agreement**") is made as of this 16th day of March 2004, between:

O-I Europe SAS, a company organized under the laws of France, having a share capital of thirty-seven thousand Euros (€37,000), the registered office of which is located at 3, rue du Colonel Moll, 75017 Paris, France,

hereinafter referred to as "**Buyer**", on the first part, and:

Glasspack Participations, S.A., a company organized and existing under the laws of Luxembourg, having its registered office at 13, rue Beaumont, L-1219 Luxembourg (hereinafter referred to as "**Glasspack Participations**");

Mr. Santiago RAMIREZ, an individual residing at Bolivia 17 - 29016, Madrid, Spain;

Mr. José MIRANDA, an individual residing at Calle Nuria 32 - 28034, Madrid, Spain;

Mr. Jean-Jacques LONJARET, an individual residing at 20, avenue du General Leclerc - 69300 Caluire, France;

Mr. Jean-Marc ARRAMBOURG, an individual residing at 1, chemin des Genets - 69130 Ecully, France;

Mr. Jean-Yves SCHAPIRO, an individual residing at 31, rue Edouard Nortier - 92200 Neuilly-sur-Seine, France;

Mr. Bertrand SCHAPIRO, an individual residing at 31, rue Edouard Nortier - 92200 Neuilly-sur-Seine, France;

Mr. Francois SCHAPIRO, an individual residing at 31, rue Edouard Nortier - 92200 Neuilly-sur-Seine, France;

and

Glasspack Partenaires S.á.r.l, a company organized under the laws of Luxembourg, having a share capital of twenty-five thousand Euros (€25,000), the registered office of which is located at 23, avenue Monterey L-2086 Luxembourg (hereinafter referred to as "**Glasspack Partenaires**"),

hereinafter collectively referred to as "**Sellers**", on the second part, it being specified that Sellers shall act severally but not jointly (*conjointement mais non solidairement*), except for Mr. Jean-Yves Schapiro, Mr. Bertrand Schapiro and Mr. Francois Schapiro ("**Schapiro Sellers**") who shall act jointly and severally among themselves, for the purpose hereof, and:

Owens-Illinois, Inc., a corporation organized and existing under the laws of the State of Delaware, United States of America, with its principal place of business at One SeaGate, Toledo, Ohio 43666, U.S.A.

hereinafter referred to as "**Guarantor**".

Buyer, Guarantor or any of the Sellers are individually hereinafter referred to as a "**Party**" and collectively as the "**Parties**".

RECITALS

WHEREAS, BSN Glasspack is a *société anonyme* organized and existing under the laws of France, having its registered office at 64, boulevard du 11 Novembre 1918, 69100 Villeurbanne, France, registered with the *Registre du Commerce et des Sociétés* of Lyon under number 339 030 702 (hereinafter referred to as the "**Company**");

WHEREAS, the Company has a share capital of seventy-five million six hundred and sixty thousand Euros (€75,660,000) divided into 4,728,750 shares of €16 par value each, representing 100% of the share capital and of the voting rights on a fully-diluted basis (the "**Shares**"), allocated between Sellers as shown in **Schedule A**. Between the date hereof and the Closing Date (as defined below), Glasspack Partenaires will acquire from the other Sellers (except Glasspack Participations) a certain number of Shares not exceeding 100,000 Shares, to be determined at least five business days prior to the Closing Date (the "**Preliminary Seller Transfers**");

WHEREAS, the Company holds direct and indirect interests in such companies listed in **Schedule B** (the "**Subsidiaries**" and together with the Company, the "**Companies**");

WHEREAS, the Companies are involved in the business of manufacturing and distributing glass bottles and glass food jars in Europe (the "**Business**");

WHEREAS, Buyer together with its advisors were given access to a data room in respect of the Companies from December 9, 2003 to February 25, 2004 and to additional documents and information relating to the Company through March 15, 2004, and has reviewed to its satisfaction the documents provided during such process, which documents are listed in **Schedule C**. Buyer and its advisors were further given access to the key managers of the Companies, have participated in various site visits, and have more generally asked questions and carried out those investigations deemed necessary in relation to the business, the accounts, the financial, environmental, labor, tax and legal affairs of the Companies (together the "**Due Diligence**"). On the basis of its Due Diligence findings and of its own assumptions, projections and estimates, Buyer confirmed its interest in acquiring the Shares;

WHEREAS, Sellers desire to sell to Buyer, and Buyer desires to purchase from Sellers, all of the Shares, on the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the Company has consented to Buyer as a new shareholder of the Company at a board of directors' meeting held on March 11, 2004 and at a shareholders' meeting held on March 11, 2004. The minutes of such meetings are attached as **Schedule D**;

WHEREAS, Glasspack Participations has approved the Transaction at a board of directors' meeting held on March 10, 2004. The minutes of such meeting are attached as **Schedule E**.

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

Article I Definitions

All capitalized terms or expressions used and not otherwise defined herein shall have the meanings set forth below. Except for the terms "Company" and "Companies", definitions used in this Agreement shall apply equally to both the singular and plural forms of the terms defined.

"2003 Financial Statements" means, collectively, the audited consolidated balance sheet and related audited consolidated statements of income and cash flows of the Company and its Subsidiaries for the fiscal year ended December 31, 2003 and the notes thereto, prepared in accordance with IFRS applied on a consistent basis throughout the periods referenced and prepared from, and in accordance with, the books and records of the Company and the Subsidiaries. A reconciliation of the IFRS net income and net equity amounts to US GAAP amounts is attached to the 2003 Financial Statements. These reconciliations contain significant adjustments necessary to conform the above-mentioned amounts to US GAAP prepared on a consistent basis for the periods indicated, save for the respective evolution of IFRS and US GAAP.

"Affiliate" when used with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified. Control is defined as provided in Article L 233-3 of the French Commercial Code.

"Budget" means the BSN Glasspack 2004 Capex Budget dated February 12, 2004, a copy of which has been provided to the Buyer.

"Credit Agreement" means that certain Credit Agreement dated as of July 27, 1999, as amended and restated on August 5, 2003, among BSN Glasspack Treasury, S.A., Citibank International Plc, as facility agent, Citibank International, as security agent, Citibank N.A., as issuing agent, and Citigroup Global Markets Limited, as lead manager.

"IFRS" means the accounting standards adopted by the International Accounting Standards Board and its predecessors.

"Indebtedness" means (i) all indebtedness for borrowed money (including principal, interest and other amounts due to the lender in connection with the payment thereof, if any), including all outstanding amounts owed under the Credit Agreement, and (ii) all indebtedness associated with capital leases and similar arrangements required to be capitalized in accordance with IFRS, if any.

"Material Adverse Effect" means any material adverse change in the business, assets, condition (financial or otherwise), results of operations or properties of the Company and the Subsidiaries, taken as a whole (which, for the avoidance of doubt, shall exclude material adverse changes in the financial markets).

"Permitted Lien" means (a) liens securing the liens of materialmen, carriers, landlords and like persons, all of which are not yet due and payable, (b) liens for Taxes not yet due and payable and for which appropriate reserves have been established in accordance with FRS, (c) liens that do not materially adversely affect the use or value of the asset(s) to which they attach, (d) the encumbrances reflected in the 2003 Financial Statements and (e) assets and properties disposed of, or subject to purchase or sales orders, in the ordinary course of business since the date of the 2003 Financial Statements.

"Person" means any individual, firm, corporation, partnership, group, trust, joint venture, or governmental authority or other entity, and shall include any successor (by merger or otherwise) of such entity.

"Taxes" means any federal, national, state, local, foreign, and other taxes, contributions, duties, fees and governmental charges of any kind, including estimated taxes, whether payable directly or by withholding, levied with regard to, among others, income, profits, net wealth, asset values, property, sales, customs, added value, employment, gains, payroll as well as custom duties, import and export taxes, and social security taxes and charges, together with any interest, penalties or additions to tax with respect thereto.

"Tax Return" means any federal, national, state, local or foreign return, declaration, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto and including any amendment thereof.

"US GAAP" means United States generally accepted accounting principles, consistently applied.

Article 2 Principles of Construction

In this Agreement:

- a) Whenever used: (i) the words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation"; and (ii) the words "hereof", "herein" and similar words shall be construed as references to this Agreement as a whole and not limited to the particular Section or subsection in which the reference appears.
- b) All references to "**Sections**", "**Articles**" and "**Schedules**" shall be deemed references to sections and articles of, and schedules to this Agreement unless the context shall otherwise require. The descriptive headings to Sections, Articles and Schedules are inserted for convenience only, and shall have no legal effect,
- c) The Schedules shall be deemed to be a part of this Agreement, and references to this Agreement shall be deemed to include such items.
- d) Any item provided in a Schedule specifically indicating that such item is provided with respect to another Schedule shall be deemed to be provided for such Schedule.
- e) Unless otherwise specifically indicated, all sums of money are expressed in Euros.

Article 3 Purchase and Sale of Shares

3.1 *Sale of Shares*

Pursuant to the terms and subject to the conditions set forth herein, Sellers, acting severally but not jointly (*conjointement mais non solidairement*), except for the Schapiro Sellers acting jointly and severally among themselves, agree to sell, transfer and deliver and Sellers who are not individuals agree to cause to be sold, transferred and delivered to Buyer and Buyer agrees to purchase from Sellers, on the Closing Date (as defined in Article 7 hereof), the full ownership (*pleine propriété*) of the Shares.

The purchase and sale of the Shares is referred to in this Agreement as the "**Transaction**". The number of Shares sold by each of the Sellers to the Purchaser shall be communicated to the Purchaser upon completion of the Preliminary Seller Transfers at least five business days prior to the Closing Date, failing which such number shall be the number indicated in **Schedule A** hereto.

3.2 *Purchase Price*

The purchase price for all of the Shares mutually agreed by Sellers and Buyer shall be equal to 495,000,000 Euros (approximately 104.68 Euros per Share) (the "**Purchase Price**"). For the avoidance of doubt, the Shares are transferred with the right of Buyer to receive all dividends and distributions of any kind with respect to the financial year ended December 31, 2003 and any period thereafter.

The allocation of the Purchase Price between the Sellers shall be communicated to the Purchaser upon completion of the Preliminary Seller Transfers at least five business days prior to the Closing Date, failing which such allocation shall be as shown in **Schedule 3.2**. The allocation of the Purchase Price between the Schapiro Sellers has been determined at the sole discretion of the Schapiro Sellers.

3.3 Payment of the Purchase Price

The Purchase Price shall be paid by Buyer to Sellers on the Closing Date. The various payments that must be made in connection with the Purchase Price on the Closing Date shall be made by wire transfer of immediately available funds to the different bank accounts as shall have been notified to Buyer not less than three business days prior to the Closing Date.

Article 4 Representations and Warranties

4.1 Representations and Warranties of Sellers

Sellers, acting severally but not jointly (*conjointement mais non solidairement*), except for the Schapiro Sellers acting jointly and severally among themselves, represent and warrant to Buyer and Guarantor that as of the date hereof and as of the Closing Date (except where specifically indicated otherwise):

4.1.1 Corporate Status

(a) *Sellers.* Sellers who are not individuals are companies duly organized and validly existing under their respective laws of incorporation or organization.

(b) *The Company and the Subsidiaries.* Each of the Company and the Subsidiaries is a corporation duly organized and validly existing under the laws of its jurisdiction of incorporation or organization. Sellers have previously provided to Buyer true and complete copies of the by-laws and any other governing instruments of Sellers, the Company and its Subsidiaries as presently in effect. The stock certificates, if any, register and transfer books and the minute books of the Company and its Subsidiaries previously provided to Buyer are true and complete.

(c) *Corporate Existence.* Other than with respect to GFG Gesellschaft für Glasbeschichtung GmbH ("**GFG**"), there has been no request for the annulment or the dissolution of the Company or the Subsidiaries or the appointment of an *administrateur judiciaire*, *mandataire ad hoc* or *mandataire amiable* (or the respective equivalents under the laws of any country other than France) to manage the Company's or any Subsidiary's affairs, nor has any petition been filed with any competent authority requesting the initiation of any liquidation procedures (*redressement judiciaire* or *liquidation judiciaire* or the respective equivalents under the laws of any country other than France) with respect to any of the Companies, and the Companies are not insolvent (*en cessation des paiements*). To Sellers' best knowledge there is no valid basis currently existing which could reasonably be expected to result in the dissolution or winding up of any of the Companies other than GFG (except for non-compliance by the Subsidiaries with requirements under law or their respective constitutional documents relating to minimum number of shareholders or the holding of certain qualifying shares where such non-compliance results from a specific request made by Buyer in relation to this Agreement).

4.1.2 Share Capital of the Company and the Subsidiaries

The share capital of the Company is seventy-five million six hundred and sixty thousand Euros (€75,660,000) divided into 4,728,750 Shares of €16 par value each, constituting 100% of the issued and outstanding share capital and voting rights of the Company on a fully diluted basis. No other class of interests in or equity interests of the Company is authorized or outstanding. The Shares are duly authorized and validly issued and outstanding, fully paid and free of any further capital contribution obligations. The Shares are owned as set forth on **Schedule A** on the date hereof and on the Closing Date will be owned as set forth on a revised **Schedule A** to be provided by Sellers to Buyer at least five (5) business days prior to the Closing Date. The Company holds direct and indirect interests in the Subsidiaries listed in **Schedule B** which sets forth (i) the name of each Subsidiary, (ii) the amount of each Subsidiary's outstanding capital stock on a fully diluted basis and the allocation of the share

capital of the Subsidiaries, (iii) the exact number of shares in each Subsidiary held directly or indirectly by the Company or any other Subsidiaries on the date hereof and on the Closing Date and (iv) the jurisdiction of incorporation or organization of each Subsidiary. All the outstanding shares of capital stock of each Subsidiary have been duly authorized and validly issued and are fully paid and free of any further capital contribution obligations. Except for the Subsidiaries, neither the Company nor any Subsidiary owns, directly or indirectly, an equity participation or similar interest in any Person, and neither the Company nor any Subsidiary is a party to a partnership, limited liability company, joint venture or similar agreement. There are no commitments providing for (i) the issuance of any additional shares of capital stock of the Companies (with or without voting rights), (ii) the issuance of securities convertible into shares of the Companies, (iii) the issuance of other securities by the Companies, or (iv) other commitments of any kind (contingent or otherwise) pursuant to which the Company or any Subsidiary is or may become obligated to issue, sell, transfer, register, purchase, return or redeem any shares of capital stock of the Company or any Subsidiary or other securities convertible into, exchangeable for or evidencing the right to subscribe for or purchase stock, or other securities of the Company or any Subsidiary, and no securities of the Company or any Subsidiary are reserved for issuance for any purpose. The Shares are not subject to any voting trust agreement or other contract, agreement, arrangement, commitment or understanding, which may prevent the Sellers from entering into, executing, delivering or performing this Agreement and the transactions contemplated hereby. Other than this Agreement, upon consummation of the Transaction on the Closing Date the Shares will not be subject to any voting trust agreement or other contract, agreement, arrangement, commitment or understanding, including any such agreement, arrangement, commitment or understanding restricting or otherwise relating to the voting rights, dividend rights or disposition of the Shares.

4.1.3 *Title to Shares*

Other than the liens which will be released in connection with the refinancing at Closing by Buyer and as set forth in Section 5.8(b) hereof, Sellers have good and valid title to the Shares and to all of the rights afforded thereby, free of all options, liens, guarantees, claims and any other encumbrances ("**Encumbrances**").

4.1.4 *Authorization*

No approval or authorization of any governmental, administrative or regulatory entity or of any third party is required on the part of Sellers in connection with the execution, delivery and performance of this Agreement and the transactions contemplated hereby.

4.1.5 *Authority*

Sellers have the full corporate power or power and authority and full legal capacity to, and are competent to, enter into, execute and deliver this Agreement, to perform fully their obligations hereunder and the other documents contemplated hereby and to respectively sell, transfer, assign and deliver the Shares as provided in this Agreement. The execution, delivery and performance of this Agreement and the other documents contemplated hereby by Sellers and the consummation of the Transaction have been duly and validly authorized by the necessary corporate actions or actions and proceedings required to be taken by Sellers, if any, and no other action (corporate or otherwise) on the part of Sellers or the Company is necessary to consummate, execute, deliver or perform this Agreement or the transactions contemplated hereby. This Agreement has been duly executed and delivered by Sellers and constitutes a legal, valid and binding obligation of each Seller enforceable against each Seller in accordance with its terms. The execution, delivery and performance of this Agreement by Sellers does not, and the consummation of the transactions contemplated by this Agreement will not (i) conflict with, violate or result in the breach of any provision of the by-laws or other organizational documents of Glasspack Participations, the Company and the Subsidiaries, or (ii) conflict with or result in a violation or breach of any applicable law or regulation or any enforceable judgment applicable to Sellers, the Company or the Subsidiaries. There is no lawsuit, arbitration or proceeding pending or, to

the knowledge of Sellers, threatened in writing against Sellers which might prevent the consummation of any of the transactions contemplated by this Agreement.

4.1.6 *No Broker*

Sellers have not used the services of any broker, finder or other person who would be entitled to receive any brokerage or finder's fee from Buyer, Guarantor, the Company or its Subsidiaries in connection with the Transaction.

4.1.7 *No Material Changes*

Since December 31, 2003 there has not been, with respect to the Company or any of the Subsidiaries, any change, event, occurrence or circumstance that has had, or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

4.1.8 *No Other Representation or Warranty*

Except for the representations and warranties contained in Section 4.1, neither the Sellers nor any of their respective directors, officers, employees, agents or representatives, nor any other Person, makes any other express or implied representation or warranty with respect to Sellers, the Shares, the Company or its Subsidiaries, their respective businesses (including the accuracy or completeness of any projections, business plans, budgets, or other forward looking information) and the Transaction, and, accordingly, Sellers disclaim any other representations or warranties, whether made by Sellers, the Company or its Subsidiaries, any other Person or any of their respective directors, officers, employees, agents or representatives. No director, officer, employee, agent or representative of Sellers, the Company or any of its Subsidiaries or of any other Person shall have any liability or responsibility for the representations and warranties contained in Section 4.1 (for the avoidance of doubt, the foregoing sentence shall not apply to any of the Sellers). No representation or warranty contained in Section 4.1 shall be deemed untrue or incorrect, and Sellers shall not be deemed to have breached such representation or warranty if Buyer has actual and specific knowledge that as a consequence of a fact disclosed in the documents listed on Schedule C a misrepresentation or breach of warranty would occur on the date hereof or the Closing Date.

4.2 *Representations and Warranties of Buyer and Guarantor*

Buyer and Guarantor represent and warrant to Sellers that as of the date hereof and as of the Closing Date:

4.2.1 *Corporate Status*

Buyer is a corporation duly organized and validly existing under the laws of France. Guarantor is a corporation duly organized and validly existing under the laws of the State of Delaware. Buyer has previously provided to Sellers true and complete copies of its by-laws as presently in effect.

4.2.2 *Corporate Existence*

There has been no request for the annulment or the dissolution of Buyer or Guarantor or the appointment of an *administrateur judiciaire, mandataire ad hoc* or *mandataire amiable* to manage Buyer's or Guarantor's affaires, nor has any petition been filed with any competent authority requesting the initiation of any liquidation procedures (*redressement judiciaire* or *liquidation judiciaire*) with respect to Buyer or Guarantor, and Buyer and Guarantor are not insolvent (*en cessation des paiements*). To Buyer's and Guarantor's best knowledge there is no valid basis currently existing upon which it could be reasonably expected that a third party could require the dissolution or winding up of Buyer or Guarantor.

4.2.3 *No Broker*

Buyer and Guarantor have not used the services of any broker, finder or other person who would be entitled to receive any brokerage or finder's fee from Sellers, the Company or its Subsidiaries in connection with the Transaction.

4.2.4 *Authorizations*

Except for the Antitrust Clearances, no approval or authorization of any governmental, administrative or regulatory entity or of any third party is required on the part of Buyer or Guarantor in connection with the execution, delivery and performance of this Agreement and the transactions contemplated hereby.

4.2.5 *Authority*

Buyer and Guarantor have the full corporate power and authority and full legal capacity to, and are competent to, enter into, execute and deliver this Agreement, and to perform fully their obligations hereunder (including the purchase of the Shares and the payment of the Purchase Price) and the other documents contemplated hereby. The execution, delivery and performance of this Agreement and the other documents contemplated hereby by Buyer and Guarantor and the consummation of the Transaction have been duly and validly authorized by the necessary corporate action required to be taken by Buyer and Guarantor, if any, and no other action (corporate or otherwise) on the part of Buyer or Guarantor is necessary to consummate, execute, deliver or perform this Agreement or the transactions contemplated hereby. This Agreement has been duly executed and delivered by Buyer and Guarantor and constitutes a legal, valid and binding obligation of Buyer and Guarantor, enforceable against Buyer and Guarantor in accordance with its terms. There is no lawsuit, arbitration or proceeding pending or, to the knowledge of Buyer or Guarantor, threatened in writing against Buyer or Guarantor which might prevent the consummation of any of the transactions contemplated by this Agreement.

4.2.6 *Financial Capacity*

Buyer and Guarantor represent and warrant that, on or prior to the date hereof, Buyer or any of its Affiliates has entered into definitive agreements (the "**Financing Agreements**") with a bank group led by Citicorp North America Inc., Deutsche Bank Trust Company Americas and Bank of America, N.A. (collectively, the "**Lenders**"). The Financing Agreements have been executed and delivered by all parties thereto and, on the date hereof (a) are in full force and effect and binding upon Buyer or any of its Affiliates and (b) to the knowledge of Buyer and Guarantor, are in full force and effect and binding upon the Lenders. The Financing Agreements will provide sufficient financial capability for Buyer to consummate the transactions contemplated by this Agreement on the terms and conditions set forth in this Agreement. For the avoidance of doubt, the foregoing shall not limit the ability of the Buyer or any of its Affiliates to amend or modify the Financing Agreements so long as the foregoing representation continues to be true.

Article 5 Covenants

5.1 *Ordinary Course of Business*

5.1.1 *Affirmative Covenants*

After the date hereof and until the Closing Date, Sellers will cause the Company and the Subsidiaries to operate and carry on their businesses in the ordinary course of business in a manner consistent with past management practices and, in particular, the Sellers shall, within such course of business and consistent with such practices, cause the Company and the Subsidiaries to:

- (a) maintain the existence of the Company and the Subsidiaries, preserve intact their business organizations, keep available the services of present employees and maintain the rights,

privileges and franchises desirable in the normal conduct of the Business, consistent with past practice;

- (b) use all reasonable best efforts to keep in full force and effect all material insurance policies and binders, including the maintenance of coverage amounts not less than those in effect at the date of this Agreement;
- (c) preserve the Company's and the Subsidiaries' Business, advertise, promote and market their services and preserve the goodwill and relationships with all key customers, suppliers, licensors, licensees, distributors, creditors and any other Person having material business dealings with the Company and the Subsidiaries;
- (d) maintain all physical properties, equipment and similar assets in the same state of repair, order and condition as they were on the date of this Agreement, reasonable wear and tear excepted;
- (e) use all reasonable best efforts to preserve and protect the intellectual property of the Company and the Subsidiaries (including patents, inventions, discoveries, processes, designs, technology, know-how, copyrights, trademarks, service marks, trade and corporate names, domain names, trade dress and other source indicators, trade secrets and proprietary or confidential data or materials);
- (f) maintain the existing assets of the Business in the ordinary course consistent with past practice;
- (g) pay and discharge the debts of the Company and the Subsidiaries as they become due;
- (h) pay the payables of the Company and the Subsidiaries only in the ordinary course of business and in the same manner as previously paid, and collect the receivables of the Company and the Subsidiaries in the ordinary course and in the same manner as previously collected;
- (i) maintain sufficient cash on hand to operate the Business in the ordinary course consistent with past practice; and
- (j) continue to make capital expenditures consistent with past practice in accordance with the Budget.

5.1.2 *Negative Covenants*

Sellers will not, without the prior written consent of Buyer (which consent will not be unreasonably withheld or delayed), cause or permit the Company or any of its Subsidiaries to take any of the following actions (except to the extent it is required to do so by law or regulation or as contemplated by this Agreement):

- (a) amend its by-laws or similar constitutive document;
- (b) acquire, or agree to acquire, by merger, consolidation, purchase of stock or assets or otherwise any business or company (be it a corporation, partnership, association or other business organization);
- (c) alter its outstanding capital stock or equity securities or declare, set aside, make or pay any dividend or distribution of any kind in respect of its capital stock or equity securities (in cash or otherwise), other than the payment of dividends by Subsidiaries to their security holders other than the Sellers in a manner consistent with past practice, or purchase or redeem, or agree to purchase or redeem, any outstanding shares of its capital stock or other equity securities or any options, warrants or other rights to purchase any such shares or other equity interest or any securities convertible into or exchangeable for such shares or equity interests;

- (d) authorize, issue, transfer or sell (other than pursuant to the terms of this Agreement), or agree to authorize, issue, transfer or sell, any of its capital stock or other equity interest or any options, warrants or other rights to purchase any such shares or other equity interest or any securities convertible into or exchangeable for such shares or equity interests or purchase, or agree to purchase, any such securities of a third party;
- (e) sell, transfer or lease, or agree to sell, transfer or lease, any shares of its Subsidiaries;
- (f) reorganize, dissolve or enter into any plan of liquidation or dissolution or similar proceeding;
- (g) (i) materially increase the annual level of remuneration of the directors, officers or employees of the Company and the Subsidiaries as of the date hereof, except in the ordinary course of business consistent with past practice; (ii) grant any severance or termination pay to any director, officer or employee of the Company and the Subsidiaries, (iii) establish, adopt, enter into, amend or terminate any employee benefit plan, (iv) enter into or amend any collective bargaining agreement or (v) hire any employee except for non-management employees hired "at will" in the ordinary course of business consistent with past practice who would not be entitled to an annual compensation of 50,000 Euros or more;
- (h) incur any Indebtedness for borrowed money or assume, guarantee, or otherwise become responsible for the obligations of, or make any loans or advances of any money or other property to, any other Person including to any director, officer or employee of the Company and the Subsidiaries, except in the ordinary course of business consistent with past practice, in particular, by draw-down under the revolving credit facility available to the Companies pursuant to the Credit Agreement or borrowing under the existing securitization program;
- (i) waive or release any rights of material value, or cancel, compromise, release or assign any material Indebtedness owed to it or any material claims held by it, except in the ordinary course of business consistent with past practice, in particular under the existing securitization program;
- (j) settle or compromise any material lawsuit, proceeding or action;
- (k) make any capital expenditures for an amount materially exceeding the amounts specified in the Budget;
- (l) (i) enter into, make material amendment to, terminate or assign any material contract or lease or (ii) waive, release, relinquish or assign any of the material rights of the Company or any of the Subsidiaries under such contract or lease;
- (m) sell, assign, license, lease, or otherwise dispose of any assets, rights or properties which are material, individually or in the aggregate, to the Company or any of the Subsidiaries, except for sales of inventory in the ordinary course of business consistent with past practice;
- (n) mortgage, pledge or otherwise encumber or subject to a lien any of the Company's or the Subsidiaries' properties or assets other than in the ordinary course of business consistent with past practice;
- (o) enter into any agreement or arrangement with Sellers or any of Sellers' Affiliates (excluding the Companies);
- (p) make any changes in any accounting method, principle or practice other than those required by IFRS;
- (q) make, change, or revoke any Tax elections, change any annual accounting period or adopt or change any accounting method, file any amended Tax Return, enter into any Tax closing agreement, settle or consent to any Tax claim or assessment, incur any obligation to make any

payment of, or in respect of, any Taxes, except in the ordinary course of business or agree to extend or waive the statutory period of limitations for the assessment or collection of Taxes;

- (r) accelerate the delivery or sale of products, or offer discounts or price protection on the sale of products or premiums on the purchase of raw materials, except in the ordinary course of business consistent with past practice;
- (s) make any material changes in the selling, distribution, advertising, promotion, terms of sale or collection, purchase or payment practices of the Company and the Subsidiaries;
- (t) purchase, order or otherwise acquire inventory in excess of reasonably forecasted requirements in the ordinary course of business consistent with past practice; or
- (u) agree or make a commitment, whether in writing or otherwise, to do any of the foregoing.

5.2 *Publicity*

Each Party agrees that, from the date of this Agreement until the second anniversary thereof any public release or announcement concerning the Transaction shall be issued or made by each Party after consultation with the other Parties (so far as it is lawful to do so), in which case the Party required or willing to make the release or announcement shall give the other Parties reasonable time to comment on such release or announcement in advance of such issuance.

5.3 *Antitrust Filings*

Buyer agrees to make full and accurate filing with all competent antitrust authorities as soon as practicable after the date of this Agreement and in any event, in the case of (i) antitrust authorities in the Slovak Republic no later than ten (10) calendar days, and (ii) all other competent antitrust authorities no later than fourteen (14) days, in each case from the date of this Agreement, and to supply promptly any additional information and documentary material that may be reasonably requested by the relevant antitrust authority, with a view to the allowance of the Antitrust Clearances. To the extent that subsequent to the date hereof the Parties agree that it is reasonably necessary and in the best interest of the Buyer and the Sellers to make a filing referred to in the previous sentence on a date subsequent to the latest applicable date there provided, the Buyer and the Sellers may mutually agree that such filing may be made at a later date agreed between them.

For the purpose of this Agreement, an "**Antitrust Clearance**" shall mean a decision (including a declaration of lack of jurisdiction) by any Relevant Antitrust Authority (as defined below) or the expiry of the applicable waiting period, authorizing or not objecting (where under applicable law such non-objection is construed as an authorization to complete the envisaged Transaction) to the Transaction contemplated herein.

Buyer acknowledges the importance for Sellers that the Antitrust Clearances be secured as soon as possible and, therefore, undertakes and represents and warrants as follows:

(a) Based upon the information supplied by Sellers, the antitrust authorities of the European Union, the Czech Republic and the Slovak Republic (the "**Relevant Antitrust Authorities**") are the only competent antitrust authorities to scrutinize or approve the Transaction contemplated by this Agreement or with which a filing is to be made prior to the Closing;

(b) Buyer agrees to use its reasonable best efforts to do the things necessary or appropriate under applicable laws, to the extent reasonably practicable or appropriate in connection with the purpose of this Agreement, to obtain the relevant Antitrust Clearances as promptly as practicable. Notwithstanding the foregoing or any other covenant contained herein, Buyer shall not be required to (nor, without Buyer's prior written consent, shall Sellers) (i) take or commit to take any action if the taking of such action would reasonably be expected to deprive Buyer of any material benefit of the Transaction, (ii) divest, dispose of or hold separate, or otherwise take or commit to take any action that limits

Buyer's freedom of action with respect to, or its ability to retain, operate or control, the Companies taken as a whole, or (iii) divest, dispose of or hold separate, or otherwise take or commit to take any action that limits Buyer's freedom of action with respect to, or its ability to retain, operate or control, any of the businesses or assets of Buyer; and

(c) Buyer shall keep Sellers regularly informed of the processing of the antitrust filing with the Relevant Antitrust Authorities and provide promptly Sellers or Sellers' counsel with all non-privileged or non-commercially sensitive documents and information concerning the antitrust filing and any communication exchanged with the antitrust authority.

Sellers shall use their best efforts to provide Buyer with any assistance necessary for the preparation of the antitrust filing and to obtain Antitrust Clearance. In this respect, Sellers shall promptly extend, and shall cause the Companies to promptly extend, to Buyer all the necessary support including the delivery of additional documents and data relating to Sellers and the Companies, but in no event shall make any agreement to divest, sell or otherwise limit any of its assets or businesses without the express written consent of Buyer.

5.4 *Best Efforts; Further Assurances*

Each Party shall use its best efforts to cause the conditions to Closing set forth in Article 6 and the Parties' covenants to be fulfilled and the Closing to occur and agrees to cooperate with the others and execute and deliver such additional documents and instruments and to perform such additional acts, including make any additional filings, as may be deemed reasonably necessary or appropriate by any Party, before or after the Closing Date, to effectuate, carry out and perform all of the terms and provisions of this Agreement.

5.5 *Corporate Examinations and Investigations*

From the date hereof through the Closing Date, Buyer shall be entitled, at its own expense, through its employees and representatives, to have such access to the assets, properties, business, books, records and operations of the Companies as Buyer shall reasonably request in order to consummate the Transaction. Any such investigation and examination shall be conducted at reasonable times and the Companies shall cooperate fully therein. In order that Buyer may have full opportunity to make such investigation, the Companies shall furnish to the representatives of Buyer during such period all such information and copies of such documents concerning the affairs of the Companies as such representatives may reasonably request and cause the Companies' officers, employees, consultants, agents, accountants and attorneys to cooperate fully with such representatives in connection with such investigation in order to consummate the Transaction. In addition, with respect to the *intuitu personae* agreements listed on **Schedule 5.5** executed between certain Companies on the one hand, and third parties on the other hand, the Sellers and the Buyer agree to discuss with the Companies the necessity or possibility of requesting from each such third party a consent to continue the performance of its respective agreement after the completion of the Transaction in light of the interest of the Companies in making any such request. If, following such discussion, the Buyer determines that requesting such consent(s) is appropriate for any such agreement(s), the Sellers and the Buyer will cooperate and use their best efforts to assist the Companies in obtaining such consent(s), including from the date hereof and for a reasonable period subsequent to the Closing Date, as may be necessary.

5.6 *Cooperation*

After the Closing Date, each of Buyer and the Sellers shall furnish or cause to be furnished, upon reasonable written notice, to the other Party and its employees, counsel, auditors and representatives access, during normal business hours, to such information and assistance relating to the Companies as is reasonably necessary for financial reporting and accounting matters, the preparation and filing of any Tax Returns, reports or forms or the defense of any Tax claim or assessment, the preparation and filing of any insurance reports, forms or claims as well as the preparation of any filing or submission which is

necessary under any applicable legislation, rules or regulations. Such cooperation shall include the retention and (upon the other Party's request) the provision of records and information which are reasonably relevant to any audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Buyer and Sellers agree to retain (and, in the case of Buyer, to cause the Companies to retain) all books and records with respect to Tax matters pertinent to the Companies relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Buyer or Sellers, any extensions thereof) of the respective taxable periods. Each Party shall reimburse the other for reasonable costs and expenses incurred in assisting the other pursuant to this Section 5.6. Neither Party shall be required by this Section 5.6 to take any action that would unreasonably interfere with the conduct of its business or unreasonably disrupt its normal operations (and, in the case of Buyer, the business or operations of the Companies).

5.7 Confidentiality

(a) Each of the Parties hereto shall treat the content of this Agreement as well as all information obtained from the other Parties as confidential. Sellers shall, and shall cause their relatives and Affiliates, for a period of three (3) years from the Closing Date to keep confidential all information relating to the Company, the Subsidiaries and the Business. The Parties shall refrain from disclosing such information and this Agreement, in whole or in part, to any third party, except as required by any applicable laws or regulations, in which case the disclosing Party shall give prior notice to the other Parties (so far as it is lawful to do so).

(b) Sellers agree to use their best efforts to enforce, for the benefit of Buyer, all confidentiality or similar agreements entered into by Sellers with any Person in connection with the Transaction or which pertain to the business or assets of the Companies, including by requiring any such Person to promptly return or destroy any confidential information previously furnished to such parties.

5.8 Discharge under the Credit Agreement

(a) Prior to the date hereof, Buyer has arranged sufficient funds for the Companies to discharge in full the Credit Agreement at the Closing. Sellers shall cooperate with Buyer to provide that the Company and its Subsidiaries shall have delivered applicable notices under the Credit Agreement to allow the Buyer to discharge in full the Credit Agreement on the Closing Date. Assuming that Buyer shall have completed the discharge in full of the Credit Agreement on the Closing Date, Sellers shall procure that the Company obtains for the Closing, in form and substance reasonably satisfactory to Buyer, (i) payoff letters and documents evidencing that, upon receipt of a specified amount, all outstanding amounts owed under the Credit Agreement will be paid in full and that the Companies will not have the ability to borrow thereunder in the future, (ii) all documents evidencing the effective contractual termination of (x) Encumbrances on the Shares or any of the Subsidiaries' shares and (y) any other Encumbrances granted by the Company or any Subsidiary in relation to its assets or otherwise (or, as practicable and as may be agreed by the Parties, an assignment of such Encumbrances to a new lender to the Companies), in the case of each of clauses (x) and (y) which arise pursuant to the Credit Agreement, along with documents necessary for the Company to cause the de-registration or release of such Encumbrances in the applicable jurisdictions thereafter; and (iii) any amendments to the Intercreditor Agreements that were entered into upon the issuances of the 10 1/4% Senior Subordinated Notes due 2009 and 9 1/4% Senior Subordinated Notes due 2009 (such 9 1/4% Senior Subordinated Notes due 2009, the "**New Notes**" and, collectively, the "**Notes**") issued by Affiliates of the Company, respectively, or other documentation that is necessary to ensure that the liabilities incurred by the Companies in respect of the refinancing of the Credit Agreement will rank senior to the Notes, the guarantees thereof or Encumbrances securing them (as applicable) on the terms provided for in such

Intercreditor Agreements, respectively. All costs and expenses relating to the refinancing of the Credit Agreement shall be borne by the Company. For the avoidance of doubt, except for the first sentence of this Section 5.8, all actions to be taken by Sellers and Buyer under this Section 5.8 will be considered to take place simultaneously or in such order as agreed by the Parties as reasonably necessary to effect the foregoing arrangements.

(b) Notwithstanding any other provision in this Agreement, the Parties acknowledge that Section 3.1.03 of the Indenture governing the New Notes requires that to the extent the collateral securing the guarantee of the New Notes is released, as contemplated by this Section 5.8, and other liabilities are then secured by property including the Shares or assets of the Companies of the type constituting the collateral for the New Notes, as may be contemplated by the refinancing of the Credit Agreement by the Buyer, the Company will be required to ensure that holders of the New Notes benefit from new security in such Shares or assets on terms on which they previously benefited prior to release. The Parties agree to take such action as necessary to comply with such provisions at Closing.

5.9 Purchase of loan note

Buyer shall purchase or shall procure the purchase, on the Closing Date, of the loan note held by Glasspack Participations representing all outstanding amounts under the loan agreement dated August 5, 1999 between the Company and Glasspack Participations for a price equal to the sum of the aggregate principal amount of 15,240,000 Euros, and all accrued and unpaid interest in connection therewith.

5.10 Termination of Agreements

At or prior to the Closing, Sellers shall procure the termination or cancellation of any agreement or arrangement of any kind among the Companies, on the one hand, and Sellers, their Affiliates (which, for the avoidance of doubt, shall not include the Companies) or any of their respective directors and employees, on the other hand, including the payment of all outstanding amounts and all accrued and unpaid interest thereunder, other than agreements or arrangements relating to the loan granted by Glasspack Participations to the Company referred to in Section 5.9 above, employment and/or mandates or the payment of any amounts due upon termination of any such agreements or arrangement.

5.11 Release from Third Party Guarantees

(a) At the Closing, Sellers shall release or procure the release of each of the Companies from any guarantee, indemnity bond, security or other obligations given or incurred by them to any third party which relates to debts or other liabilities, whether actual or contingent, of Sellers or Sellers' Affiliates (which, for the avoidance of doubt, shall not include the Companies) and Sellers shall indemnify and keep indemnified each of the Companies against any and all liabilities, claims, demands, proceedings, losses, damages, costs or expenses incurred in respect thereof.

(b) At the Closing, Buyer shall release or procure the release of each of the Sellers from any guarantee, indemnity bond, security or other obligations given or incurred by them to any third party which relates to debts or other liabilities, whether actual or contingent, of the Companies and Buyer shall indemnify and keep indemnified each of the Sellers against any and all liabilities, claims, demands, proceedings, losses, damages, costs or expenses incurred in respect thereof.

(c) The Parties covenant that they shall co-operate in addressing any third party which is a beneficiary to any guarantee or other obligation under sub-sections 5.11(a) and 5.11(b) above. The mutual purpose shall be that such third party shall accept such substitute guarantee or obligation that any of the Parties offers. Each of the Parties shall keep the other Party indemnified and hold

the other Party harmless from and against any costs, claims or losses arising as a result of any non-acceptance by such third parties of substitute guarantees.

5.12 *No Third Party Discussions*

From and after the date of this Agreement until the first to occur of the Closing or the termination of this Agreement, Sellers, the Companies and any of their respective representatives will not solicit, initiate, encourage or engage in discussions or negotiations with, or provide information to, any Person, other than Buyer and its representatives, concerning any purchase, transfer or other disposition of the Shares, any merger or other business combination involving any of the Companies, any sale of all or any part of the assets of any of the Companies or any similar transaction involving any of the Companies. For the avoidance of doubt, this Section 5.12 shall not apply to asset sales in the ordinary course of business which are permissible pursuant to Section 5.1.

5.13 *Non-Competition*

Each Seller covenants and agrees that in the event that any Seller acquires, in its individual capacity or through any entity in which it has an economic interest or through any relative or Affiliate, directly or indirectly, an interest in a Person engaged in the Business, Sellers shall not use any information (including patents, inventions, discoveries, processes, designs, technology, know-how, trade secrets or any other proprietary or confidential data, information or materials) relating to the Companies, Buyer or Guarantor to engage in the Business.

5.14 *Non-Solicitation of Employees*

During the period commencing on the Closing Date and ending on the third anniversary thereof, each Seller agrees that neither it in its individual capacity or through any entity in which it has an economic interest nor through any relative or Affiliate will, without the prior written consent of the Company, directly or indirectly, induce or attempt to influence any director, manager, officer or employee of the Company or any of the Subsidiaries to terminate his or her employment with the Company or the Subsidiaries; provided, that this Section 5.14 will not be deemed to apply to a general solicitation to the public.

5.15 *Financing*

Sellers agree that they shall and shall cause each of the Company and its Subsidiaries to provide, and will request their respective representatives to provide, reasonable cooperation in connection with the arrangement of financing by Buyer to be consummated prior to or at the Closing in respect of the transactions contemplated by this Agreement. Such cooperation shall include, to the extent reasonable and customary, arranging for senior officers of the Company and its Subsidiaries to meet with prospective lenders in presentations, meetings and due diligence sessions, and the provision of information to the extent reasonably requested by the Lenders. Buyer and Guarantor will provide Sellers copies of all Financing Agreements and related documentation upon request of Sellers.

5.16 *Board of Directors of the Company*

Sellers shall procure that each person requested in writing by Buyer no later than fifteen business days prior to Closing shall tender his resignation as a director, chairman or any similar position of any of the Companies effective on the Closing Date and shall provide waiver letters of such persons with respect to all claims in relation to the relevant Companies other than any amount due under agreements or arrangements relating to employment, any mandate, or under law, or any amounts due upon termination of any such agreement or arrangement.

5.17 *Convening of general shareholders' meetings of the Companies*

Sellers shall procure that a meeting of the board of directors of the Company and, as applicable, of the Subsidiaries, is validly held before the Closing Date to convene a general meeting of the

shareholders of the Company and, as applicable, of the Subsidiaries to be held on the Closing Date, immediately after the Closing, to acknowledge the resignation of the directors of the Company and, as applicable, of the Subsidiaries, and to appoint new directors (or similar positions) of the Company and, as applicable, of the Subsidiaries. Sellers shall procure that such general shareholders' meetings of the Companies shall be convened in accordance with all applicable laws. Buyer shall provide Sellers with the names of the new directors (or similar positions) to be appointed at such shareholders' meetings no later than fifteen business days prior to the Closing Date.

5.18 *Use of Name*

Following the Closing Date, Sellers and any of their Affiliates shall not have any right, title or interest in the name "BSN Glasspack" (or any variation thereof) or any trademarks, trade names, logo or symbols related thereto (except that reference may be made to such name on deal lists of CVC funds or advisory entities).

5.19 *Intellectual Property*

(a) The Sellers will use their best efforts to take all action necessary to provide that the Companies have the legal right to use the intellectual property rights which are material to the Companies and currently used in the conduct of their business.

(b) In this regard, prior to the Closing, (i) the Sellers and the Buyer will cooperate as reasonably necessary to determine those legal rights which are material to the business of the Companies and any action to be taken pursuant to paragraph (a) above, and (ii) the Sellers will keep the Buyer reasonably informed of the progress of matters relating thereto.

5.20 *Payment of Amounts Due To Owens-Illinois, Inc.*

Sellers shall cause the Company to pay all amounts due and payable to Owens-Illinois, Inc. or its subsidiaries, at or prior to the Closing Date, related to royalties and expenses under the Technical Assistance and Trade Secret Agreement between Owens-Brockway Glass Container, Inc. and BSN, S.A., dated August 2, 1999, as amended, and purchases of glass forming machines and replacement parts.

5.21 *Ownership of Glasspack Participations*

Sellers shall procure that, on the Closing Date, Glasspack Participations will be directly or indirectly wholly owned by funds advised by CVC Capital Partners Europe, Santiago Ramirez and José Miranda, in order that no other person holding any direct or indirect interest in Glasspack Participations could oppose the contemplated Transaction on the Closing Date on the basis of any such interest.

Article 6 – Conditions Precedent to Closing

6.1 *Conditions to the Parties' Obligations*

The obligations of the Parties shall be subject to satisfaction of each of the conditions set forth below on or before the Closing. The Parties may at their election waive any one or more of such conditions.

6.1.1 *Antitrust Clearance*

The Parties' obligation to consummate the Transaction is subject to the granting of the Antitrust Clearances by all Relevant Antitrust Authorities.

6.1.2 *Litigation*

There shall not be pending or threatened any action, suit, investigation, litigation or proceeding in any court or before any arbitrator or governmental instrumentality that could reasonably be expected to enjoin, prevent or impose material adverse conditions on the Transaction.

6.2 *Conditions to Sellers' Obligations*

The obligations of Sellers shall be subject to satisfaction of each of the conditions set forth below on or before the Closing. Sellers may at their election waive any one or more of such conditions.

6.2.1 *Representations and Warranties of Buyer and Guarantor*

Each of the representations and warranties made by Buyer or Guarantor, as applicable, set forth herein (other than those representations and warranties that address matters as of a particular date) and qualified by materiality qualifiers shall be true and correct in all respects as of the date hereof and as of the Closing Date as though then made and as though the Closing Date was substituted for the date of this Agreement through such representations and warranties (and those representations and warranties that address matters as of particular dates shall be true and correct in all respects as of such dates), and not qualified by materiality qualifiers shall be true and correct in all material respects as of date hereof and as of the Closing Date as though then made and as though the Closing Date was substituted for the date of this Agreement through such representations and warranties (and those representations and warranties that address matters as of particular dates shall be true and correct in all material respects as of such dates).

6.2.2 *Performance*

Buyer shall have duly performed and complied with all agreements, covenants and obligations required by this Agreement to be so performed or complied with by Buyer at or before the Closing, except to the extent that the non-performance or non-compliance with such agreements, covenants or obligations would not result in a Material Adverse Effect.

6.3 *Conditions to Buyer's and Guarantor's Obligations*

The obligations of Buyer and Guarantor shall be subject to satisfaction of each of the conditions set forth below on or before the Closing. Buyer and Guarantor may at their election waive any one or more of such conditions.

6.3.1 *Material Adverse Effect*

Since the date of this Agreement, there will have occurred no event nor will there have arisen any circumstances resulting in a Material Adverse Effect.

6.3.2 *Representations and Warranties of Sellers*

Each of the representations and warranties made by such Seller set forth herein (other than those representations and warranties that address matters as of a particular date) and qualified by materiality qualifiers (including Material Adverse Effect) shall be true and correct in all respects as of the date hereof and as of the Closing Date as though then made and as though the Closing Date was substituted for the date of this Agreement through such representations and warranties (and those representations and warranties that address matters as of particular dates shall be true and correct in all respects as of such dates), and not qualified by materiality qualifiers (including Material Adverse Effect) shall be true and correct in all material respects as of date hereof and as of the Closing Date as though then made and as though the Closing Date was substituted for the date of this Agreement through such representations and warranties (and those representations and warranties that address matters as of particular dates shall be true and correct in all material respects as of such dates).

6.3.3 Performance

Sellers shall have duly performed and complied with all agreements, covenants and obligations required by this Agreement to be so performed or complied with by Sellers at or before the Closing, except to the extent that the non-performance or non-compliance with such agreements, covenants or obligations would not result in a Material Adverse Effect.

6.3.4 Management Shares

At the Closing, at the request of Buyer, the shares in the Subsidiaries held by any director or officer of the Company or any of its Subsidiaries specified in Schedule 6.3.4 shall have been transferred directly or indirectly either to the Company or any of the Subsidiaries.

Article 7 Closing

The consummation of the Transaction (the "*Closing*") shall be held at the offices of Willkie Farr & Gallagher LLP, 21-23 rue de la Ville l'Evêque, 75008 Paris, France, or at such other location as shall be mutually agreed by the Parties, at 9 a.m. (Paris time) on the tenth day following the completion of the conditions precedent set forth in Article 6 above (the "*Closing Date*") or on such other date the Parties may mutually agree if the conditions precedent set forth in Article 6 of this Agreement shall not have been satisfied on the Closing Date or, if legally possible, waived by the Parties, by such time of day on such date. If the tenth day mentioned in the preceding sentence is not a business day, Closing shall occur on the next day that is a business day. Notwithstanding the foregoing, the Closing Date shall occur no earlier than June 5, 2004.

At the Closing:

- (a) each of the persons listed in Schedule 5.16 shall have tendered his resignation as a director, manager, president or any similar office of any of the Companies and shall have provided the waiver letters as provided in Section 5.16 hereof;
- (b) Sellers shall deliver to Buyer share transfer orders duly executed by Sellers for the transfer of the Shares;
- (c) Buyer shall have received duly executed share transfer forms in favor of Buyer by each director or officer of the Company or any of its Subsidiaries that holds one or more shares in the Company and the Company or, as applicable, any of the Subsidiaries, shall have received duly executed share transfer forms in favor of the Company or, as applicable, any of the Subsidiaries, by each director or officer of the Company or any of its Subsidiaries that holds one or more shares in the Subsidiaries as provided in Section 6.3.4 hereof;
- (d) Buyer shall make available to Sellers the Antitrust Clearances obtained from all Relevant Antitrust Authorities;
- (e) Buyer shall make the payments required under Section 3.2 above to each of the Sellers in immediately available funds;
- (f) Assuming that Buyer shall have arranged and the Company shall have completed the discharge in full of the Credit Agreement on the Closing Date, Sellers shall deliver to Buyer, in form and substance reasonably satisfactory to Buyer, (i) payoff letters and documents evidencing that upon receipt of a specified amount, all outstanding amounts owed under the Credit Agreement will be paid in full and that the Companies will not have the ability to borrow thereunder in the future, (ii) all documents evidencing the effective contractual termination of (x) Encumbrances on the Shares or any of the Subsidiaries' shares and (y) any other Encumbrances granted by the Company or any Subsidiary in relation to its assets or otherwise (or, as practicable and as may be agreed by the Parties, an assignment of such Encumbrances to a new lender to the Companies), in the case of each of clauses (x) and (y) which arise pursuant to the

Credit Agreement, along with documents necessary for the Company to cause the de-registration or release of such Encumbrances in the applicable jurisdictions thereafter, and (iii) any amendments to the Intercreditor Agreements that were entered into upon the issuances of the New Notes and the Notes issued by Affiliates of the Company, respectively, or other documentation that is necessary to ensure that the liabilities incurred by the Companies in respect of the refinancing of the Credit Agreement will rank senior to the Notes, the guarantees thereof and Encumbrances securing them (as applicable) on the terms provided for in such Intercreditor Agreements, respectively, subject to the conditions set forth in Section 5.8 above.

- (g) Buyer shall comply with the covenant referred to in Sections 5.9 and 5.11(b) hereof;
- (h) Sellers shall provide evidence of compliance with the covenants referred to in Sections 5.10, 5.11(a), 5.17 and 5.19 hereof;
- (i) Glasspack Participations shall delivery to Buyer a certificate of Glasspack Participation's corporate secretary confirming the statements (solely with respect to itself) set forth in Section 6.3.2;
- (j) Buyer and Guarantor shall deliver to Sellers a certificate of each of Buyer's and Guarantor's corporate secretary confirming the statements set forth in Section 6.2.1; and
- (k) Sellers shall deliver to Buyer the documentation set forth on Schedule 7.

All matters at the Closing will be considered to take place simultaneously or in such order as agreed by the Parties as reasonably necessary to effect the foregoing arrangements.

Article 8 Termination

8.1 *Termination*

This Agreement may be terminated at any time prior to the Closing:

- (a) by the written agreement of the Parties;
- (b) by either Buyer and Guarantor, on the one hand, or any of the Sellers, on the other hand, if a court of competent jurisdiction or any governmental authority shall have issued an order or other judgment or taken any other action, which permanently prohibits the Transaction;
- (c) by either Buyer and Guarantor, on the one hand, or any of the Sellers, on the other hand, if the Closing shall not have occurred on or prior to September 15, 2004 unless such eventuality shall be due to the breach or the lack of action by the Party seeking to terminate this Agreement of any of the covenants, agreements or other undertakings herein to be performed or observed by such Party prior thereto;
- (d) by Sellers, if there has been a material violation or breach by Buyer and/or Guarantor of any covenant, representation or warranty contained in this Agreement which would prevent the satisfaction of any condition to the obligations of Sellers at the Closing and such violation or breach has not been waived by Sellers or, in the case of a covenant breach, cured by Buyer and/or Guarantor within thirty (30) days after written notice thereof by Sellers; or
- (e) by Buyer and Guarantor, if there has been a material violation or breach by Sellers of any covenant, representation or warranty contained in this Agreement which would prevent the satisfaction of any condition to the obligations of Buyer and/or Guarantor at the Closing and such violation or breach has not been waived by Buyer and/or Guarantor or, in the case of a covenant breach, cured by Sellers, as the case may be, within thirty (30) days after written notice thereof from Buyer.

In addition, this Agreement may be terminated on June 30, 2004 by 5:00 p.m. (Paris time) by either Buyer and Guarantor, on the one hand, or Sellers acting jointly, on the other hand, if the Closing shall not have occurred due to the failure to satisfy the condition set forth in Section 6.1.1.

This Agreement may not be terminated or rescinded (*résolu*) after the Closing.

8.2 Consequences

If this Agreement is terminated:

(a) this Agreement shall become void and of no further force or effect, except for the provisions of (i) Section 9.4 relating to certain expenses, (ii) Section 5.2 relating to publicity and (iii) Section 5.7 relating to confidentiality;

(b) all confidential information provided by one Party to any other Parties shall be returned to such first Party or, upon such first Party's instruction, destroyed, and shall otherwise be treated in accordance with Section 5.7; and

(c) notwithstanding the foregoing, and save as otherwise expressly provided, nothing in this Section 8.2 shall be deemed to release either Party from any liability for any breach by such Party of the terms and provisions of this Agreement.

Article 9 Miscellaneous

9.1 Notices

Any notices or other communications required or permitted hereunder shall be given in writing (either in French or English) and hand delivered or sent by registered or certified mail, return receipt requested, postage prepaid, or if sent by facsimile transmission with confirmation of receipt addressed as mentioned in **Schedule 9.1** or to such other address as the Parties shall have given notice of pursuant hereto.

9.2 Entire Agreement

This Agreement represents the entire understanding and agreement of the Parties and supersedes all prior agreements, understandings or arrangements among Sellers, Buyer, Guarantor and their Affiliates with respect to the subject matter hereof and can be amended, supplemented or changed, and any provision hereof can be waived, only by written instrument making specific reference to this Agreement signed by the Party against whom enforcement of such amendment, supplement, modification or waiver is sought.

9.3 Consents

(a) For the purposes of requesting Sellers' consent hereunder, Sellers designate Glasspack Participation with immediate effect who shall have full power and authority to give irrevocable consents on behalf of Sellers. All such requests for approval shall be deemed granted if Sellers have not given written notice of disapproval within five business days of receipt of the written request for approval.

(b) For the purposes of requesting Buyer's and Guarantor's consent hereunder, Buyer and Guarantor designate Guarantor with immediate effect who shall have full power and authority to give irrevocable consents on behalf of Buyer and Guarantor. All such requests for approval shall be deemed granted if Buyer or Guarantor has not given written notice of disapproval within five business days of receipt of the written request for approval.

9.4 Expenses

(a) Each Party shall pay all of its own costs and expenses (including attorneys', accountants' and investment bankers' fees) incurred in connection with this Agreement and the transactions

contemplated hereby. For the avoidance of doubt, other than as set forth in paragraphs (b) and (c) below no costs and expenses (including legal, accounting, due diligence, advisory and consulting costs and expenses) arising out of or incurred in connection with this Agreement and the transactions contemplated hereby shall be borne by the Company or any of its Subsidiaries.

(b) All costs and expenses relating to the refinancing of the Credit Agreement and actions taken by the Company pursuant to the last two sentences of Section 5.5 of this Agreement shall be borne by the Company.

(c) Buyer shall bear the transfer Taxes related to the purchase of the Shares provided by Article 726-I-1° of the *Code Général des Impôts*.

9.5 *Waiver*

Any Party may, by written notice to another Party: (a) extend the time for the performance of any of the obligations or other actions of such other Party; (b) waive any inaccuracies in the representations of such other Party contained in this Agreement; or (c) waive or consent to the modification of performance of any of the obligations of such other Party.

No action taken pursuant to this Agreement, including without limitation, any investigation by or on behalf of any Party, shall be deemed to constitute a waiver by the Party taking such action of compliance with any representation, warranty, condition, or agreement contained herein, except if provided otherwise in writing by the Parties.

9.6 *Severability*

If at any time subsequent to the date hereof, any provisions of this Agreement shall be held by any court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement shall not be affected or impaired thereby and the Parties shall negotiate in good faith to replace the offending provision by another enforceable, valid and legal provision that has the same or has a similar effect on the Transaction as the original provision.

9.7 *Assignment*

The rights and obligations under this Agreement may not be assigned or delegated by any Party hereto, in whole or in part, by operation of law or otherwise, to any third party without the prior written consent of the other Parties hereto; provided that notwithstanding any provision to the contrary in this Agreement, Buyer may assign all or any of its rights and obligations hereunder to any Affiliate of Buyer without such consent as long as such assignment does not limit or affect Buyer's or Guarantor's obligations hereunder.

9.8 *Successors, Heirs and Assigns*

In the case of death of a Seller who is an individual, this Agreement shall be binding on his or her successors, heirs and assigns, regardless of whether they are minors or otherwise under a disability.

9.9 *Applicable Law/Disputes*

(a) This Agreement shall be governed by and construed and enforced in accordance with the laws of France, without reference to its conflict of law rules.

(b) In the event of any dispute between the Parties arising out of or in connection with this Agreement (including the construction, validity, existence or enforceability of this Agreement), such dispute shall be submitted to settlement proceedings under the then current ICC Amicable Dispute Resolution ("**ADR**") Rules of the International Chamber of Commerce, Paris (the "**ICC**"). If the dispute cannot be settled pursuant to such ICC ADR Rules within 45 days following the filing of a Request for ADR or within such other period as the parties may agree in writing, the dispute shall be finally settled under the then current rules of arbitration of the ICC, by three

arbitrators. The seat of the arbitration shall be Paris, France. The language of arbitration shall be English and all arbitrators shall be fluent in French. The Parties shall be allowed to file legal materials (such as statutes, case law or doctrine) in French without the need for translation. The Chairman of the arbitral tribunal shall have a good knowledge of French law as well as of commercial matters relating to mergers and acquisitions. Discovery shall be strictly limited to reasonable discovery relating to specific documents relevant to the dispute.

9.10 *Guarantee*

(a) Guarantor hereby irrevocably and unconditionally guarantees to Sellers the full and prompt performance and payment of all of the obligations of Buyer arising out of or in connection with this Agreement. Guarantor shall indemnify and hold harmless Sellers from and against and in respect of any and all liabilities, obligations, losses, damages, costs, charges or other expenses, including reasonable attorneys' fees and disbursements, which Sellers may actually suffer, incur or be subject to arising out of or as a direct result of (x) any breach or nonperformance of any of the covenants or other agreements made by Buyer in this Agreement, and (y) any inaccuracy in or breach of the representations and warranties made by Buyer in this Agreement.

(b) Sellers shall indemnify and hold harmless Buyer and Guarantor from and against and in respect of any and all liabilities, obligations, losses, damages, costs, charges or other expenses, including reasonable attorneys' fees and disbursements, which Buyer or Guarantor may actually suffer, incur or be subject to arising out of or as a direct result of (x) any breach or nonperformance of any of the covenants or other agreements made by Sellers in this Agreement and (y) any inaccuracy in or breach of the representations and warranties made by Sellers in this Agreement.

Glasspack Participations, S.A.

/s/ Anne-Catherine Dresse

By:
Name:
Title:

Santiago RAMIREZ

/s/ Santiago Ramirez

José MIRANDA

/s/ José Miranda

Jean-Jacques LONJARET

/s/ Jean-Jacques Lonjaret

Jean-Marc ARRAMBOURG

/s/ Jean-Marc Arrambourg

Jean-Yves SCHAPIRO

/s/ Jean-Yves Schapiro

Bertrand SCHAPIRO

/s/ Bertrand Schapiro

Glasspack Partenaires S.à.r.l.

/s/ Anne-Catherine Dresse

By:
Name:
Title:

Francois SCHAPIRO

/s/ Francois Schapiro

O-I Europe SAS

/s/ Franco Todisco

By: Aziende Vetrarie Industriali Ricciardi . Avir S.P.A.

Title: President

Signatory: Franco Todisco, Chief Executive Officer

Owens-Illinois, Inc.

/s/ Franco Todisco

Name: Franco Todisco

Title: Senior Vice-President

QuickLinks

[BY AND BETWEEN O-I EUROPE SAS OWENS-ILLINOIS, INC. AND GLASSPACK PARTICIPATIONS, S.A. MR. SANTIAGO RAMIREZ MR. JOSE MIRANDA MR. JEAN-JACQUES LONJARET MR. JEAN-MARC ARRAMBOURG MR. JEAN-YVES SCHAPIRO MR. BERTRAND SCHAPIRO MR. FRANCOIS SCHAPIRO GLASSPACK PARTENAIRES S.à.r.l March 16, 2004](#)
[Willkie Farr & Gallagher LLP 21-23, rue de la Ville l'Eveque 75008 Paris](#)
[SHARE PURCHASE AGREEMENT](#)
[RECITALS](#)

**2004 EQUITY INCENTIVE PLAN FOR DIRECTORS OF
OWENS-ILLINOIS, INC.**

OWENS-ILLINOIS, INC., a corporation organized under the laws of the State of Delaware (the "Company"), hereby amends and restates in its entirety the Stock Option Plan for Directors of Owens-Illinois, Inc., which was adopted on March 11, 1994 and amended effective March 1, 1996, as the 2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc. The purposes of this Equity Incentive Plan are as follows:

(1) To further the growth, development and financial success of the Company by providing additional incentives to certain members of its Board of Directors who are not employees of the Company, by assisting them to become owners of common stock of the Company and thus to benefit directly from its growth, development and financial success.

(2) To enable the Company to obtain and retain the services of the type of outside directors considered essential to the long-range success of the Company by providing and offering them an opportunity to become owners of common stock of the Company under grants and awards of options, restricted stock and restricted stock units.

The Plan shall be effective upon the date it is approved by the Company's stockholders ("Effective Date").

**ARTICLE I
DEFINITIONS**

Whenever the following terms are used in this Plan, they shall have the meaning specified below unless the context clearly indicates to the contrary. The masculine pronoun shall include the feminine and neuter, and the singular shall include the plural, where the context so indicates.

Section 1.1—Award

"Award" shall mean an Option, Restricted Stock or Restricted Stock Unit granted or awarded under this Plan.

Section 1.2—Board

"Board" shall mean the Board of Directors of the Company.

Section 1.3—Code

"Code" shall mean the Internal Revenue Code of 1986, as amended.

Section 1.4—Committee

"Committee" shall mean a committee of the Board appointed to administer the Plan, as provided in Section 8.1.

Section 1.5—Common Stock

"Common Stock" shall mean the Company's common stock, \$.01 par value.

Section 1.6—Company

"Company" shall mean Owens-Illinois, Inc. In addition, "Company" shall mean any corporation assuming, or issuing new employee stock options in substitution for, Options, outstanding under the Plan, in a transaction to which Section 424(a) of the Code would apply if such Options were "incentive stock options" within the meaning of Section 422 of the Code.

Section 1.7—Director

"Director" shall mean a member of the Board, whether he is such a member at the time this Plan is adopted or becomes such a member subsequent to the adoption of this Plan, who is not an employee of the Company or of any corporation which is a Parent Corporation or a Subsidiary.

Section 1.8—Effective Date

"Effective Date" shall have the meaning set forth in the preamble of this Plan.

Section 1.9—Exchange Act

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

Section 1.10—Fair Market Value

"Fair Market Value" of a share of the Company's stock as of a given date shall be: (i) the closing price of a share of the Company's stock on the principal exchange on which shares of the Company's stock are then trading, if any, on the day previous to such date, or, if shares were not traded on the day previous to such date, then on the next preceding trading day during which a sale occurred; or (ii) if such stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, either (1) the last sales price (if the stock is then listed as a National Market Issue under the NASD National Market System) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the stock on the day previous to such date as reported by NASDAQ or such successor quotation system; or (iii) if such stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the mean between the closing bid and asked prices for the stock, on the day previous to such date, as determined in good faith by the Committee; or (iv) if the Company's stock is not publicly traded, the fair market value established by the Committee acting in good faith.

Section 1.11—Holder

"Holder" shall mean a Director to whom an Award is granted or awarded under the Plan.

Section 1.12—Option

"Option" shall mean an option to purchase Common Stock, granted under Article III of this Plan.

Section 1.13—Optionee

"Optionee" shall mean a Director to whom an Option is granted under the Plan.

Section 1.14—Parent Corporation

"Parent Corporation" shall mean any corporation in an unbroken chain of corporations ending with the Company if each of the corporations other than the Company then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.15—Plan

"Plan" shall mean this 2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc.

Section 1.16—Restricted Stock

"Restricted Stock" shall mean Common Stock awarded under Article VI of this Plan.

Section 1.17—Restricted Stock Agreement

"Restricted Stock Agreement" shall mean Restricted Stock Agreement as provided in Section 6.3.

Section 1.18—Restricted Stock Unit

"Restricted Stock Unit" shall mean a unit of Restricted Stock awarded under Article VII of this Plan.

Section 1.19—Restricted Stock Unit Agreement

"Restricted Stock Unit Agreement" shall mean Restricted Stock Unit Agreement as provided in Section 7.3.

Section 1.20—Rule 16b-3

"Rule 16b-3" shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended in the future.

Section 1.21—Securities Act

"Securities Act" shall mean the Securities Act of 1933, as amended.

Section 1.22—Stock Option Agreement

"Stock Option Agreement" shall mean Stock Option Agreement as provided in Section 4.1.

Section 1.23—Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. "Subsidiary" shall also mean any partnership in which the Company and/or any Subsidiary owns more than 50% of the capital or profits interests.

Section 1.24—Termination of Membership

"Termination of Membership" shall mean the time when a Holder's membership on the Board of the Company or of a Parent Corporation or a Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, a termination by resignation, discharge, death, total disability or retirement, but excluding (i) terminations where there is a simultaneous reelection to or other reestablishment of membership on the Board of the Company or of a Parent Corporation or a Subsidiary (ii) terminations resulting from the normal expiration of the director's term or (iii) terminations where the Optionee continues a relationship (e.g., as an employee or as a consultant) with the Company, a Parent Corporation or a Subsidiary. The Committee, in its absolute discretion, shall determine the effect of all other matters and questions relating to Termination of Membership, including, but not by way of limitation, the question of whether a Termination of Membership resulted from a discharge for good cause, and all questions of whether particular leaves of absence constitute Terminations of Membership.

Section 1.25—Transferable Option

"Transferable Option" means an Option which by its terms, as determined by the Committee and set forth in the applicable Stock Option Agreement (or an amendment thereto), may be transferred by the Optionee, in writing and with written notice thereof to the Committee, by gift, without the receipt

of any consideration, (i) to such Optionee's spouse; or (ii) to any child or more remote lineal descendant of such Optionee or to the spouse of any such child or more remote lineal descendant; or (iii) to any trust, custodianship, or other similar fiduciary relationship maintained for the benefit of the Optionee and/or any one or more of such persons listed in (i) or (ii) herein; or (iv) to any limited liability company or partnership, all of whose members or partners consist of the Optionee and/or any one or more of such persons listed in (i), (ii) or (iii) herein; or (v) to any non-profit organization or charitable trust, contributions to which qualify for an income tax deduction under Section 170(c) of the Code, but is otherwise nontransferable except by will or the applicable laws of descent and distribution.

Section 1.26—Transferee

"Transferee" shall mean any person or entity to whom or to which an Optionee has transferred a Transferable Option.

**ARTICLE II
SHARES SUBJECT TO PLAN**

Section 2.1—Shares Subject to Plan

The shares of stock subject to Options, awards of Restricted Stock and issuance upon the vesting of Restricted Stock Units shall be shares of Common Stock. The aggregate number of such shares which may be issued upon the exercise of such Options, upon any such awards of Restricted Stock or upon the vesting of such Restricted Stock Units shall not exceed 525,000. For purposes of determining the number of shares of Common Stock that may be issued under the Plan, such number shall increase by the number of shares tendered or relinquished to the Company (a) in connection with the exercise of an Option or (b) in payment of federal, state and local income tax withholding liabilities upon exercise of an Option or award or vesting of Restricted Stock or Restricted Stock Units.

Section 2.2—Unexercised or Unvested Awards

If any Option expires or is cancelled without having been fully exercised, the number of shares subject to such Option but as to which such Option was not exercised prior to its expiration or cancellation may again be granted hereunder, subject to the limitations of Section 2.1. If any Restricted Stock is repurchased by the Company or forfeited in connection with a Termination of Membership or otherwise, the number of shares repurchased or forfeited may again be granted hereunder, subject to the limitations of Section 2.1. If any Restricted Stock Unit is forfeited in connection with a Termination of Membership or otherwise, the number of shares forfeited may again be granted hereunder, subject to the limitations of Section 2.1.

Section 2.3—Changes in Company's Shares

In the event that the outstanding shares of Common Stock are hereafter changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation, by reason of reorganization, merger, consolidation, recapitalization or reclassification, or the number of shares is increased or decreased by reason of a stock split-up, stock dividend, combination of shares or any other increase or decrease in the number of such shares of Common Stock effected without receipt of consideration by the Company (provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration"), the Committee shall make appropriate adjustments in the number and kind of shares for the purchase of which Options may be granted, which may be awarded as Restricted Stock or which may be issued upon the vesting of Restricted Stock Units, including adjustments of the limitations in Section 2.1 on the maximum number and kind of shares which may be issued on the exercise of Options, for awards of Restricted Stock and on the vesting of Restricted Stock Units.

ARTICLE III
GRANTING OF OPTIONS

Section 3.1—Eligibility

Any Director of the Company or of any corporation which is then a Parent Corporation or a Subsidiary shall be eligible to be granted Options.

Section 3.2—Granting of Options

(a) The Committee shall from time to time, in its absolute discretion:

(i) Determine the Directors (including those to whom Options have been previously granted under the Plan) as in its opinion should be granted Options; and

(ii) Determine the number of shares to be subject to such Options granted to such Directors; and

(iii) Determine the terms and conditions of such Options, consistent with the Plan, including, but not limited to, such terms and conditions as may be required in order to make an Option a Transferable Option.

(b) Upon the selection of a Director to be granted an Option, the Committee shall instruct the appropriate officer or officers of the Company to issue such Option and may impose such conditions on the grant of such Option as it deems appropriate.

ARTICLE IV
TERMS OF OPTIONS

Section 4.1—Stock Option Agreement

Each Option shall be evidenced by a written Stock Option Agreement, which shall be executed by the Optionee and an authorized officer of the Company and which shall contain such terms and conditions as the Committee shall determine, consistent with the Plan. Stock Option Agreements evidencing Transferable Options shall contain (or may be amended to contain) such terms and conditions as may be necessary to meet the definition of a Transferable Option under Section 1.25 hereof.

Section 4.2—Option Price

The price of the shares subject to each Option shall be set by the Committee; provided, however, that the price per share shall be not less than 100% of the Fair Market Value of such shares on the date such Option is granted.

Section 4.3—Commencement of Exercisability

(a) No Option may be exercised in whole or in part during the first year after such Option is granted, except as may be provided in Sections 4.3(c) and 4.5.

(b) Subject to the provisions of Sections 4.3(a), 4.3(c) and 4.5, Options shall become exercisable at such times and in such installments (which may be cumulative) as the Committee shall provide in the terms of each individual Option; provided, however, that by a resolution adopted after an Option is granted the Committee may, on such terms and conditions as it may determine to be appropriate and subject to Sections 4.3(a), 4.3(c) and 4.5, accelerate the time at which such Option or any portion thereof may be exercised.

(c) No portion of an Option which is unexercisable at Termination of Membership shall thereafter become exercisable; *provided, however*, that provision may be made that such Option shall become exercisable in the event of a Termination of Membership because of the Optionee's retirement or total disability (each as determined by the Committee in accordance with Company policies) or death.

Section 4.4—Expiration of Options

(a) No Option may be exercised to any extent by anyone after the first to occur of the following events:

(i) The expiration of ten years and one day from the date the Option was granted; or

(ii) Except in the case of (A) any Optionee who is totally disabled (as determined by the Committee in accordance with Company policies), or (B) any Optionee who retires within the meaning of clause (iv) below, or (C) any Optionee who dies or (D) any Optionee whose right to exercise his Option is extended by the Committee pursuant to clause (vi) below, the expiration of three months from the date of the Optionee's Termination of Membership for any reason unless the Optionee dies within said three-month period; or

(iii) In the case of any Optionee who is totally disabled (as determined by the Committee in accordance with Company policies), the expiration of one year from the date of the Optionee's Termination of Membership by reason of his disability unless the Optionee dies within said one-year period; or

(iv) In the case of any Optionee who retires (as determined by the Committee in accordance with Company policies), the expiration of three years from the date of the Optionee's Termination of Membership by reason of such retirement; or

(v) The expiration of one year from the date of the Optionee's death; or

(vi) In the case of any Optionee whose right to exercise his Option is extended by the Committee, which extension shall not exceed three years from the date of Optionee's Termination of Membership, the date upon which such extension expires.

(b) Subject to the provisions of Section 4.4(a), the Committee shall provide, in the terms of each individual Option, when such Option expires and becomes unexercisable; and (without limiting the generality of the foregoing) the Committee may provide in the terms of individual Options that said Options expire immediately upon a Termination of Membership; *provided, however*, that provision may be made that such Option shall become exercisable in the event of a Termination of Membership because of the Optionee's retirement or total disability (each as determined by the Committee in accordance with Company policies) or death.

Section 4.5—Merger, Consolidation, Acquisition, Liquidation or Dissolution

Notwithstanding the provisions of Section 9.4, in its absolute discretion, and on such terms and conditions as it deems appropriate, the Committee may provide by the terms of any Option that such Option cannot be exercised after the merger or consolidation of the Company with or into another corporation, the acquisition by another corporation or person (excluding any employee benefit plan of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company) of all or substantially all of the Company's assets or 51% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company; and if the Committee so provides, it may, in its absolute discretion and on such terms and conditions as it deems appropriate, also provide, either by the terms of such Option or by a resolution adopted prior to the occurrence of such merger, consolidation, acquisition, liquidation or dissolution, that, for some period of time prior to

such event, such Option shall be exercisable as to all shares covered thereby, notwithstanding anything to the contrary in Section 4.3(a), Section 4.3(b) and/or any installment provisions of such Option.

ARTICLE V

EXERCISE OF OPTIONS

Section 5.1—Persons Eligible to Exercise

During the lifetime of the Optionee, only he or his Transferee, if any, may exercise an Option (or any portion thereof) granted to him. After the death of the Optionee, any exercisable portion of an Option may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Stock Option Agreement, be exercised by his Transferee, if any, or by his personal representative or any other person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution. All of the terms and conditions of any Option in the hands of the Optionee during his lifetime shall be and remain fully applicable and binding on his Transferee, if any, and on any other person who may become eligible to exercise such Option.

Section 5.2—Partial Exercise

At any time and from time to time prior to the time when any exercisable Option or exercisable portion thereof becomes unexercisable under the Plan or the applicable Stock Option Agreement, such Option or portion thereof may be exercised in whole or in part; provided, however, that the Company shall not be required to issue fractional shares and the Committee may, by the terms of the Option, require any partial exercise to be with respect to a specified minimum number of shares.

Section 5.3—Manner of Exercise

An exercisable Option, or any exercisable portion thereof, may be exercised solely by delivery to the secretary of the Company or his office of all of the following prior to the time when such Option or such portion becomes unexercisable under the Plan or the applicable Stock Option Agreement:

- (a) Notice in writing signed by the Optionee or other person then entitled to exercise such Option or portion, stating that such Option or portion is exercised, such notice complying with all applicable rules established by the Committee; and
- (b) (i) Full payment (in cash or by check) for the shares with respect to which such Option or portion is thereby exercised; or
 - (ii) With the consent of the Committee, either (A) shares of Common Stock owned by the Optionee duly endorsed for transfer to the Company or (B) shares of Common Stock issuable to the Optionee upon exercise of the Option, with a Fair Market Value on the date of Option exercise equal to the aggregate Option price of the shares with respect to which such Option or portion is thereby exercised; or
 - (iii) With the consent of the Committee, any combination of the consideration provided in the foregoing subsections (i) and (ii); and
- (c) The payment to the Company (or other applicable corporation) of all amounts, if any, which it is required to withhold under federal, state or local law in connection with the exercise of the Option; with the consent of the Committee, either (i) shares of Common Stock owned by the Optionee duly endorsed for transfer or (ii) shares of Common Stock issuable to the Optionee upon exercise of the Option, valued at Fair Market Value as of the date of Option exercise, may be used to make all or part of such payment; and
- (d) Such representations and documents as the Committee, in its absolute discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any

other federal or state securities laws or regulations. The Committee may, in its absolute discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer orders to transfer agents and registrars; and

(e) In the event that the Option or portion thereof shall be exercised pursuant to Section 5.1 by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option or portion thereof.

Section 5.4—Rights as Stockholders

The Optionee shall not be, nor have any of the rights or privileges of, a stockholder of the Company with respect to any shares purchasable upon the exercise of any part of an Option unless and until certificates representing such shares have been issued by the Company to such Optionee.

Section 5.5—Transfer Restrictions

Unless otherwise approved in writing by the Committee, no shares acquired upon the exercise of any Option by any Director may be sold, assigned, pledged, encumbered or otherwise transferred until at least six months have elapsed from (but excluding) the date that such Option was granted. The Committee, in its absolute discretion, may impose such other restrictions on the transferability of the shares purchasable upon the exercise of an Option as it deems appropriate. Any such other restriction shall be set forth in the respective Stock Option Agreement and may be referred to on the certificates evidencing such shares.

ARTICLE VI
AWARDS OF RESTRICTED STOCK

Section 6.1—Eligibility

Any Director of the Company or of any corporation which is then a Parent Corporation or a Subsidiary shall be eligible to be awarded Restricted Stock.

Section 6.2—Award of Restricted Stock

(a) An award of Restricted Stock is a grant of shares of Common Stock, with such shares of Common Stock that may be subject to a risk of forfeiture or other restrictions that shall expire upon the satisfaction of the terms and conditions in the Restricted Stock Agreement.

(b) The Committee shall from time to time, in its absolute discretion:

- (i) Determine the Directors (including those to whom Restricted Stock have been previously awarded under the Plan) as in its opinion should be awarded Restricted Stock; and
- (ii) Determine the term of the restrictions placed on the Restricted Stock; and
- (iii) Determine the purchase price, if any, and other terms and conditions applicable to such Restricted Stock, consistent with the Plan.

Section 6.3—Restricted Stock Agreement

Restricted Stock shall be issued only pursuant to a written Restricted Stock Agreement, which shall be executed by the Holder and an authorized officer of the Company and which shall contain such terms and conditions as the Committee shall determine, consistent with the Plan.

Section 6.4—Rights as Stockholders

Upon delivery of the shares of Restricted Stock to the Holder or the escrow holder pursuant to Section 6.7, the Holder shall have, unless otherwise provided by the Committee, all of the rights and privileges of a stockholder of the Company with respect to said shares, subject to the restrictions in his Restricted Stock Agreement, including voting rights and the right to receive all dividends and other distributions paid or made with respect to the shares; provided, however, that in the discretion of the Committee, any extraordinary distributions with respect to the Common Stock shall be subject to the restrictions set forth in Section 6.5.

Section 6.5—Restrictions

All shares of Restricted Stock issued under this Plan (including any shares received by Holders with respect to shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, in the terms of each individual Restricted Stock Agreement, be subject to such restrictions as the Committee, in its absolute discretion, shall provide, which restrictions may include, without limitation, forfeiture conditions, restrictions concerning voting rights and transferability and restrictions based on duration of membership on the Board of the Company or of a Parent Corporation or a Subsidiary. Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire. Unless provided otherwise by the Committee, if no consideration was paid by the Holder of Restricted Stock upon issuance, the Holder's rights in unvested Restricted Stock shall lapse upon Termination of Membership.

Section 6.6—Repurchase of Restricted Stock

The Committee may provide in the terms of each individual Restricted Stock Agreement that the Company shall have the right to repurchase from the holder of Restricted Stock the Restricted Stock then subject to restrictions under the Restricted Stock Agreement immediately upon a Termination of Membership of the Holder, at a cash price per share equal to the price paid by the holder of Restricted Stock for such Restricted Stock; provided, however, that provision may be made that no such right of repurchase shall exist in the event of a Termination of Membership without cause, or following a change in control of the Company or because of the Holder's retirement, death or disability, term expiration, or otherwise, and provided further that provisions may be made that the right of repurchase may be exercised at a price less than the price paid by the Holder in the event of termination for cause, voluntary termination or otherwise.

Section 6.7—Escrow

The secretary of the Company or such other escrow holder as the Committee may appoint shall retain physical custody of each certificate representing Restricted Stock until all of the restrictions imposed under the Restricted Stock Agreement with respect to the shares evidenced by such certificate expire or shall have been removed.

Section 6.8—Legend

In order to enforce the restrictions imposed upon shares of Restricted Stock hereunder, the Committee shall cause a legend or legends to be placed on certificates representing all shares of Restricted Stock that are still subject to restrictions under Restricted Stock Agreements, which legend or legends shall make appropriate reference to the conditions imposed thereby.

ARTICLE VII
AWARDS OF RESTRICTED STOCK UNITS

Section 7.1—Eligibility

Any Director of the Company or of any corporation which is then a Parent Corporation or a Subsidiary shall be eligible to be awarded Restricted Stock Units.

Section 7.2—Award of Restricted Stock Units

(a) An award of a Restricted Stock Unit is a grant of the right to receive shares of Common Stock in the future, with such right to future delivery of such shares of Common Stock subject to a risk of forfeiture or other restrictions that shall expire upon the satisfaction of the terms and conditions in the Restricted Stock Unit Agreement.

(b) The Committee shall from time to time, in its absolute discretion:

(i) Determine the Directors (including those to whom Restricted Stock Units have been previously awarded under the Plan) as in its opinion should be awarded Restricted Stock Units; and

(ii) Determine the term of the vesting period placed on the Restricted Stock Units; and

(iii) Determine the purchase price, if any, and other terms and conditions applicable to such Restricted Stock Units, consistent with the Plan.

Section 7.3—Restricted Stock Unit Agreement

Restricted Stock Units shall be issued only pursuant to a written Restricted Stock Unit Agreement, which shall be executed by the Holder and an authorized officer of the Company and which shall contain such terms and conditions as the Committee shall determine, consistent with this Plan.

Section 7.4—Rights as Stockholders

A Holder of Restricted Stock Units shall not be, nor have any of the rights or privileges of, a stockholder of the Company with respect to any shares covered by the Restricted Stock Units unless and until such shares have been registered on the stock transfer books of the Company in the name of such Holder.

Section 7.5—Restrictions

All Restricted Stock Units issued under this Plan (including any units received by holders thereof with respect to Restricted Stock Units as a result of stock dividends, stock splits or any other form of recapitalization) shall, in the terms of each individual Restricted Stock Unit Agreement, be subject to such restrictions as the Committee, in its absolute discretion, shall provide, which restrictions may include, without limitation, forfeiture conditions, restrictions concerning voting rights and vesting and transferability and restrictions based on duration of membership on the Board of the Company or of a Parent Corporation or a Subsidiary. Restricted Stock Units may not be sold or encumbered until all restrictions are terminated or expire. Unless provided otherwise by the Committee, if no consideration was paid by the Holder of Restricted Stock Units upon issuance, the Holder's rights in unvested Restricted Stock Units shall lapse upon Termination of Membership.

ARTICLE VIII
ADMINISTRATION

Section 8.1—Committee

The Committee shall consist of two or more members of the Board, appointed by and holding office at the pleasure of the Board, each of whom is a "non-employee director" as defined by Rule 16b-3. Appointment of Committee members shall be effective upon acceptance of appointment. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee shall be filled by the Board.

Section 8.2—Duties and Powers of Committee

It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions. The Committee shall have the power to interpret the Plan and the Options, Restricted Stock and Restricted Stock Unit Agreements issued hereunder and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. The Board shall have no right to exercise any of the rights or duties of the Committee under the Plan.

Section 8.3—Majority Rule

The Committee shall act by a majority of its members in office. The Committee may act either by vote at a meeting or by a memorandum or other written instrument signed by a majority of the Committee.

Section 8.4—Compensation; Professional Assistance; Good Faith Actions

Members of the Committee shall receive such compensation for their services as members as may be determined by the Board. All expenses and liabilities incurred by members of the Committee in connection with the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants, appraisers, brokers or other persons. The Committee, the Company and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon all Optionees, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Options, Restricted Stock and Restricted Stock Units granted or awarded hereunder, and all members of the Committee shall be fully protected by the Company in respect to any such action, determination or interpretation.

ARTICLE IX
OTHER PROVISIONS

Section 9.1—Consideration

In consideration of the granting of an Award under the Plan, the Holder shall agree, in the written Stock Option Agreement, Restricted Stock Agreement or Restricted Stock Unit Agreement, to remain a member of the Board of the Company or of a Parent Corporation or a Subsidiary for a period of at least one year after the Award is granted; provided, however, that the Committee may require that the Holder provide additional consideration for such Award.

Section 9.2—Awards Not Transferable

No Award or interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Holder or his successors in interest or shall be subject to disposition by transfer,

alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect; provided, however, that nothing in this Section 9.2 shall prevent any transfer of a Transferable Option in accordance with its terms or any transfer by will or by the applicable laws of descent and distribution.

Section 9.3—Conditions to Issuance of Stock Certificates

The shares of stock issuable and deliverable under upon the Plan may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock under the Plan prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and

(b) The completion of any registration or other qualification of such shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and

(d) The payment to the Company (or other applicable corporation) of all amounts, if any, which it is required to withhold under federal, state or local law in connection with the Award; and

(e) With respect to the exercise of an Option, the lapse of such reasonable period of time following the exercise of the Option as the Committee may establish from time to time for reasons of administrative convenience.

Section 9.4—Adjustments in Outstanding Awards

In the event that the outstanding shares of Common Stock subject to Awards are hereafter changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation, by reason of reorganization, merger, consolidation, recapitalization or reclassification, or the number of shares is increased or decreased by reason of a stock split-up, stock dividend, combination of shares or any other increase or decrease in the number of such shares of Common Stock effected without receipt of consideration by the Company (provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration"), the Committee shall make appropriate adjustments in the number and kind of shares as to which all outstanding Awards, or portions thereof then unexercised or unvested, shall be exercisable or granted upon any Awards, to the end that after such event the Holder's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in an outstanding Award shall be made without change in the total price applicable to the Award or the unexercised portion of an Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices) and with any necessary corresponding adjustment in Option price per share. Any such adjustment made by the Committee shall be final and binding upon all Holders, the Company and all other interested persons.

Section 9.5—Term of the Plan

The term of the Plan shall expire ten years from the Effective Date, unless the Plan is sooner terminated by the Board or unless the term of the Plan is extended by the Board, subject to approval by the Company's stockholders. No Award may be granted during any period of suspension of the Plan or after termination of the Plan.

Section 9.6—Amendment, Suspension or Termination of the Plan

The Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee. However, without approval of the Company's stockholders given within twelve months before or after the action by the Committee, no action of the Committee may, except as provided in Section 2.3, increase any limit imposed in Section 2.1 on the maximum number of shares which may be issued on the exercise of Options or awarded as Restricted Stock or the vesting of Restricted Stock Units, materially modify the eligibility requirements of Sections 3.1, 6.1 or 7.1, reduce the minimum Option price requirements of Section 4.2, extend the limit imposed in Section 9.5 on the period during which Awards may be granted, or amend or modify the Plan in a manner requiring stockholder approval under Rule 16b-3. Neither the amendment, suspension nor termination of the Plan shall, without the consent of the Holder, alter or impair any rights or obligations under any Award theretofore granted.

Section 9.7—No Right to Continued Board Membership

Nothing in this Plan or in any Stock Option Agreement, Restricted Stock Agreement or Restricted Stock Unit Agreement hereunder shall confer upon any Holder any right to continue as a member of the Board of the Company or of any Parent Corporation or any Subsidiary or shall interfere with or restrict in any way the rights otherwise conferred on or reserved to the Board and the stockholders of the Company, its Parent Corporations and its Subsidiaries, and/or the stockholders of any of them, to terminate any Holder's Board membership at any time for any reason whatsoever, with or without cause.

Section 9.8—Effect of Plan Upon Other Option and Compensation Plans

The adoption of this Plan shall not affect any other compensation or incentive plans in effect for the Company, any Parent Corporation or any Subsidiary. Nothing in this Plan shall be construed to limit the right of the Company, any Parent Corporation or any Subsidiary (a) to establish any other forms of incentives or compensation for members of the Board of the Company, any Parent Corporation or any Subsidiary or (b) to grant or assume options, restricted stock or restricted stock units otherwise than under this Plan in connection with any proper corporate purpose, including, but not by way of limitation, the grant or assumption of options, restricted stock or restricted stock units in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, firm or association.

Section 9.9—Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

Section 9.10—Conformity to Securities Laws

The Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including without limitation Rule 16b-3. Notwithstanding anything herein to the contrary, the Plan shall be administered, and Awards shall be granted and may be

exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and Awards granted hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

* * * *

I hereby certify that the foregoing Plan was duly adopted by the Compensation Committee of the Board of Directors of Owens-Illinois, Inc. on March 23, 2004.

Executed as of the 24th day of March, 2004.

/s/ James W. Baehren

Secretary

Corporate Seal

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**OWENS-ILLINOIS, INC.
INCENTIVE BONUS PLAN**

1. Purpose of the Plan

The purpose of the Owens-Illinois, Inc. Incentive Bonus Plan is to provide for the payment of periodic cash bonuses to certain key employees of the Company and its Subsidiaries that qualify for income tax deduction by the Company.

2. Definitions

The following capitalized terms used in the Plan have the respective meanings set forth in this Section:

- (a) *Award*: A periodic cash bonus award granted pursuant to the Plan.
- (b) *Board*: The Board of Directors of the Company.
- (c) *Code*: The Internal Revenue Code of 1986, as amended, or any successor thereto.
- (d) *Committee*: The Compensation Committee of the Board (or a subcommittee thereof), or any successor thereto or any other committee designated by the Board to assume the obligations of the Committee hereunder.
- (e) *Company*: Owens-Illinois, Inc., a Delaware corporation.
- (f) *Effective Date*: The date on which the Plan takes effect, as defined pursuant to Section 13 of the Plan.
- (g) *Participant*: A senior executive of the Company or any of its Subsidiaries who is selected by the Committee to participate in the Plan pursuant to Section 4 of the Plan.
- (h) *Performance Period*: The calendar year or any other period that the Committee, in its sole discretion, may determine.
- (i) *Plan*: This Owens-Illinois, Inc. Incentive Bonus Plan, as amended from time to time.
- (j) *Shares*: Shares of common stock, par value \$0.01 per share, of the Company.
- (k) *Subsidiary*: A subsidiary corporation, as defined in Section 424(f) of the Code (or any successor section thereto).

3. Administration

The Plan shall be administered by the Committee. The Committee may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of at least two "outside directors" within the meaning of Section 162(m) of the Code (or any successor section thereto). The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. Determinations made by the Committee under the Plan need not be uniform and may be made selectively among Participants, whether or not such Participants are similarly situated.

4. Eligibility and Participation

The Committee shall designate those persons who shall be Participants for each Performance Period.

5. Awards

(a) *Performance Goals*. A Participant's Award shall be determined based on the attainment of written performance goals approved by the Committee for a Performance Period established by the Committee (i) while the outcome for the Performance Period is substantially uncertain and (ii) no more than 90 days after the commencement of the Performance Period to which the performance goal relates or, if the Performance Period is less than one year, the number of days which is equal to 25 percent of the relevant Performance Period. The performance goals, which must be objective, shall be based upon one or more of the following criteria: (i) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on equity; (vii) expense management; (viii) return on investment before or after the cost of capital; (ix) improvements in capital structure; (x) profitability of an identifiable business unit or product; (xi) maintenance or

improvement of profit margins; (xii) stock price; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital; (xviii) return on assets; (xix) cost reduction goals; (xx) return on sales; (xxi) gross margin; (xxii) debt reduction; (xxiii) new product launches; (xxiv) completion of joint ventures, divestitures, acquisitions or other corporate transactions; (xxv) new business or expansion of customers or clients; or (xxvi) productivity improvement. The foregoing criteria may relate to the Company, one or more of its Subsidiaries or one or more of its divisions or units or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the Committee may adjust, modify or amend the above business criteria, either in establishing any performance goal or in determining the extent to which any performance goal has been achieved. Without limiting the generality of the foregoing, the Committee shall have the authority, at the time it establishes the performance goals for the applicable Performance Period, to make equitable adjustments in the business criteria in recognition of unusual or non-recurring events affecting the Company or its operating units, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles, or as the Committee determines to be appropriate to reflect a true measurement of the profitability of the Company or its operating units, as applicable and to otherwise satisfy the objectives of this Plan. The maximum amount of an Award to any Participant with respect to a fiscal year of the Company shall be \$5,000,000.

(b) *Payment.* The Committee shall determine whether, with respect to a Performance Period, the applicable performance goals have been met with respect to a given Participant and, if they have, to so certify and ascertain the amount of the applicable Award, and to determine if the applicable Award shall be paid in cash or in the form of equity of the Company in conjunction with the Company's Amended and Restated 1997 Equity Participation Plan (or successor plan). No Awards will be paid for such Performance Period until such certification is made by the Committee. The amount of the Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula (including zero), at the discretion of the Committee. The amount of the Award determined by the Committee for a Performance Period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such Performance Period; provided, however, that the Committee may require a Participant, to the extent consistent with the provisions of Section 162(m) of the Code, to defer payment of an Award.

(c) *Designation of Beneficiary.* In the event of the death of a Participant, any payment due under this Plan shall be made to the Participant's estate or beneficiary designated in accordance with Committee rules.

6. Amendments or Termination

The Board or the Committee may amend, alter or terminate the Plan; *provided, however*, that any such amendments shall comply with the applicable requirements for exemption (to the extent necessary) under Section 162(m) of the Code.

7. No Right to Employment

Neither the Plan nor any action taken hereunder shall be construed as giving any Participant or other person any right to continue to be employed by or perform services for the Company or any Subsidiary, and the right to terminate the employment of or performance of services by any Participant at any time and for any reason is specifically reserved to the Company and its Subsidiaries.

8. Nontransferability of Awards

An award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution.

9. Reduction of Awards

Notwithstanding anything to the contrary herein, the Committee, in its sole discretion (but subject to applicable law), may reduce any amounts payable to any Participant hereunder in order to satisfy any liabilities owed to the Company or any of its Subsidiaries by the Participant.

10. Withholding.

The Company or any Subsidiary making a payment under this Plan shall withhold therefrom such amounts as may be required by federal, state or local law, and the amount payable under the Plan to the person entitled thereto shall be reduced by the amount so withheld.

11. Choice of Law

The Plan shall be governed by and construed in accordance with the laws of the State of Ohio applicable to contracts made and to be performed in the State of Ohio.

12. Effectiveness of the Plan

The Plan shall be effective as of March 30, 2004, subject to its approval by shareholders of the Company in the manner required by Section 162(m) of the Code.

* * * *

I hereby certify that the foregoing Plan was duly adopted by the Compensation Committee of the Board of Directors of Owens-Illinois, Inc. on March 26, 2004.

Executed as of the 26th day of March, 2004.

By: /s/ JAMES W. BAEHREN

Secretary

Corporate Seal

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[OWENS-ILLINOIS, INC. INCENTIVE BONUS PLAN](#)

OWENS-ILLINOIS, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	Six months ended June 30,	
	2004	2003
Earnings before income taxes, and minority share owners' interests	\$ 201.7	\$ 104.0
Less: Equity earnings	(14.7)	(13.6)
Add: Total fixed charges deducted from earnings	238.1	254.8
Proportionoal share of pre-tax earning of 50% owned associates	6.0	6.4
Dividends received from equity investees	11.4	14.1
	<hr/>	<hr/>
Earnings available for payment of fixed charges	\$ 442.5	\$ 365.7
	<hr/>	<hr/>
Fixed charges (including the Company's proportional share of 50% owned associates):		
Interest expense	\$ 220.8	\$ 238.1
Portion of operating lease rental deemed to be interest	7.5	5.4
Amortization of deferred financing costs and debt discount expense	9.8	11.3
	<hr/>	<hr/>
Total fixed charges deducted from earnings and fixed charges	238.1	254.8
Preferred stock dividends (increased to assumed pre-tax amount)	15.1	15.1
	<hr/>	<hr/>
Combined fixed charges and preferred stock dividends	\$ 253.2	\$ 269.9
	<hr/>	<hr/>
Ratio of earnings to fixed charges	1.9	1.4
Ratio of earnings to combined fixed charges and preferred stock dividends	1.8	1.4

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[OWENS-ILLINOIS, INC. COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS \(Dollars in millions\)](#)

CERTIFICATIONS

I, Steven R. McCracken, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Owens-Illinois, 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 officers 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)) 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) 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
 - c) 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 person 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 9, 2004

/s/ STEVEN R. MCCRACKEN
Steven R. McCracken
Chairman and Chief Executive Officer
(Principal Executive Officer)

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[CERTIFICATIONS](#)

CERTIFICATIONS

I, Thomas L. Young, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Owens-Illinois, 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 officers 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)) for the registrant and we 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) 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
 - c) 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 9, 2004

/s/ THOMAS L. YOUNG

Thomas L. Young
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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[CERTIFICATIONS](#)

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, 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, 2004 (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.

Dated: August 9, 2004

/s/ STEVEN R. MCCRACKEN

Steven R. McCracken
Chairman and Chief Executive Officer
Owens-Illinois, Inc.

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

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[Certification of Principal Executive Officer](#)

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, 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, 2004 (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.

Dated: August 9, 2004

/s/ THOMAS L. YOUNG

Thomas L. Young
Executive Vice President and
Chief Financial Officer
Owens-Illinois, Inc.

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

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[Certification of Principal Financial Officer](#)