

OWENS ILLINOIS INC /DE/  
Form 10-Q  
July 30, 2014

**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 the quarterly period ended

June 30, 2014

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from      to

Commission file number 1-9576

## OWENS-ILLINOIS, INC.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**22-2781933**

(IRS Employer  
Identification No.)

**One Michael Owens Way, Perrysburg, Ohio**

(Address of principal executive offices)

**43551**

(Zip Code)

Registrant's telephone number, including area code: **(567) 336-5000**

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a  
smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of common stock, par value \$.01, of Owens-Illinois, Inc. outstanding as of June 30, 2014 was 164,843,793.



Part I FINANCIAL INFORMATION

**Item 1. Financial Statements.**

The Condensed Consolidated Financial Statements of Owens-Illinois, Inc. (the Company ) presented herein are unaudited but, in the opinion of management, reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. All adjustments are of a normal recurring nature. Because the following unaudited condensed consolidated financial statements have been prepared in accordance with Article 10 of Regulation S-X, they do not contain all information and footnotes normally contained in annual consolidated financial statements; accordingly, they should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

|   | Three months ended June 30, |          | Six months ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2014                        | 2013     | 2014                      | 2013     |
| Net sales   | \$ 1,797                    | \$ 1,781 | \$ 3,436                  | \$ 3,422 |
| Cost of goods sold                                      | (1,439)                     | (1,412)  | (2,757)                   | (2,734)  |
| Gross profit  | 358                         | 369      | 679                       | 688      |
| Selling and administrative expense                      | (131)                       | (129)    | (264)                     | (258)    |
| Research, development and engineering expense           | (17)                        | (15)     | (32)                      | (30)     |
| Interest expense, net                                   | (54)                        | (56)     | (108)                     | (124)    |
| Equity earnings   | 19                          | 16       | 35                        | 33       |
| Other income (expense), net                             | 4                           | (8)      | 3                         | (15)     |
| Earnings from continuing operations before income taxes | 179                         | 177      | 313                       | 294      |
| Provision for income taxes                              | (39)                        | (37)     | (66)                      | (70)     |
| Earnings from continuing operations                     | 140                         | 140      | 247                       | 224      |
| Loss from discontinued operations                       | (20)                        | (3)      | (21)                      | (13)     |
| Net earnings  | 120                         | 137      | 226                       | 211      |
| Net earnings attributable to noncontrolling interests   | (6)                         | (5)      | (11)                      | (10)     |
| Net earnings attributable to the Company                | \$ 114                      | \$ 132   | \$ 215                    | \$ 201   |
| Amounts attributable to the Company:                    |                             |          |                           |          |
| Earnings from continuing operations                     | \$ 134                      | \$ 135   | \$ 236                    | \$ 214   |
| Loss from discontinued operations                       | (20)                        | (3)      | (21)                      | (13)     |
| Net earnings  | \$ 114                      | \$ 132   | \$ 215                    | \$ 201   |
| Basic earnings per share:                               |                             |          |                           |          |
| Earnings from continuing operations                     | \$ 0.81                     | \$ 0.82  | \$ 1.43                   | \$ 1.30  |
| Loss from discontinued operations                       | (0.12)                      | (0.02)   | (0.13)                    | (0.08)   |
| Net earnings  | \$ 0.69                     | \$ 0.80  | \$ 1.30                   | \$ 1.22  |
| Weighted average shares outstanding (thousands)         | 164,906                     | 164,369  | 164,833                   | 164,220  |
| Diluted earnings per share:                             |                             |          |                           |          |
| Earnings from continuing operations                     | \$ 0.80                     | \$ 0.81  | \$ 1.42                   | \$ 1.29  |
| Loss from discontinued operations                       | (0.12)                      | (0.02)   | (0.13)                    | (0.08)   |
| Net earnings  | \$ 0.68                     | \$ 0.79  | \$ 1.29                   | \$ 1.21  |
| Weighted average diluted shares outstanding (thousands) | 166,258                     | 165,731  | 166,212                   | 165,617  |

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

|  | Three months ended June 30, |        | Six months ended June 30, |        |
|--|-----------------------------|--------|---------------------------|--------|
|  | 2014                        | 2013   | 2014                      | 2013   |
| Net earnings   | \$ 120                      | \$ 137 | \$ 226                    | \$ 211 |
| Other comprehensive income (loss):                               |                             |        |                           |        |
| Foreign currency translation adjustments                         | 49                          | (162)  | 81                        | (194)  |
| Pension and other postretirement benefit adjustments, net of tax | 14                          | 90     | 37                        | 135    |
| Change in fair value of derivative instruments                   | (1)                         | (4)    |                           |        |
| Other comprehensive income (loss):                               | 62                          | (76)   | 118                       | (59)   |
| Total comprehensive income                                       | 182                         | 61     | 344                       | 152    |
| Comprehensive income attributable to noncontrolling interests    | (8)                         | (3)    | (10)                      | (4)    |
| Comprehensive income attributable to the Company                 | \$ 174                      | \$ 58  | \$ 334                    | \$ 148 |

See accompanying notes.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

|   | June 30,<br>2014 | December 31,<br>2013 | June 30,<br>2013 |
|---|------------------|----------------------|------------------|
| <b>Assets</b>   |                  |                      |                  |
| Current assets:   |                  |                      |                  |
| Cash and cash equivalents                               | \$ 194           | \$ 383               | \$ 249           |
| Receivables   | 1,147            | 943                  | 1,159            |
| Inventories   | 1,204            | 1,117                | 1,175            |
| Prepaid expenses  | 103              | 107                  | 110              |
| <b>Total current assets</b>                             | <b>2,648</b>     | <b>2,550</b>         | <b>2,693</b>     |
| Property, plant and equipment, net                      | 2,661            | 2,632                | 2,600            |
| Goodwill  | 2,065            | 2,059                | 2,031            |
| Other assets  | 1,217            | 1,178                | 1,086            |
| <b>Total assets</b>                                     | <b>\$ 8,591</b>  | <b>\$ 8,419</b>      | <b>\$ 8,410</b>  |
| <b>Liabilities and Share Owners' Equity</b>             |                  |                      |                  |
| Current liabilities:                                    |                  |                      |                  |
| Short-term loans and long-term debt due within one year | \$ 1,027         | \$ 322               | \$ 437           |
| Current portion of asbestos-related liabilities         | 150              | 150                  | 155              |
| Accounts payable  | 1,123            | 1,144                | 982              |
| Other liabilities                                       | 538              | 638                  | 545              |
| <b>Total current liabilities</b>                        | <b>2,838</b>     | <b>2,254</b>         | <b>2,119</b>     |
| Long-term debt  | 2,620            | 3,245                | 3,336            |
| Asbestos-related liabilities                            | 256              | 298                  | 257              |
| Other long-term liabilities                             | 955              | 1,019                | 1,504            |
| Share owners' equity                                    | 1,922            | 1,603                | 1,194            |
| <b>Total liabilities and share owners' equity</b>       | <b>\$ 8,591</b>  | <b>\$ 8,419</b>      | <b>\$ 8,410</b>  |

See accompanying notes.

## OWENS-ILLINOIS, INC.

## CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

|  | Six months ended June 30, |        |
|--|---------------------------|--------|
|  | 2014                      | 2013   |
| Cash flows from operating activities:                          |                           |        |
| Net earnings   | \$ 226                    | \$ 211 |
| Loss from discontinued operations                              | 21                        | 13     |
| Non-cash charges   |                           |        |
| Depreciation and amortization                                  | 229                       | 215    |
| Pension expense  | 29                        | 52     |
| Restructuring, asset impairment and related charges            |                           | 10     |
| Cash payments  |                           |        |
| Pension contributions  | (20)                      | (17)   |
| Asbestos-related payments                                      | (42)                      | (49)   |
| Cash paid for restructuring activities                         | (38)                      | (47)   |
| Change in components of working capital                        | (354)                     | (351)  |
| Other, net (a)   | (82)                      | (15)   |
| Cash provided by (utilized in) continuing operating activities | (31)                      | 22     |
| Cash utilized in discontinued operating activities             | (2)                       | (5)    |
| Total cash provided by (utilized in) operating activities      | (33)                      | 17     |
| Cash flows from investing activities:                          |                           |        |
| Additions to property, plant and equipment                     | (196)                     | (164)  |
| Other, net   | 18                        | 2      |
| Cash utilized in investing activities                          | (178)                     | (162)  |
| Cash flows from financing activities:                          |                           |        |
| Changes in borrowings, net                                     | 71                        | 9      |
| Issuance of common stock                                       | 5                         | 6      |
| Treasury shares purchased                                      | (12)                      | (10)   |
| Distributions to noncontrolling interests                      | (35)                      | (21)   |
| Other, net   | (3)                       | (13)   |
| Cash provided by (utilized in) financing activities            | 26                        | (29)   |
| Effect of exchange rate fluctuations on cash                   | (4)                       | (8)    |
| Decrease in cash   | (189)                     | (182)  |
| Cash at beginning of period                                    | 383                       | 431    |
| Cash at end of period  | \$ 194                    | \$ 249 |

(a) Other, net includes other non cash charges plus other changes in non-current assets and liabilities.

See accompanying notes.



## OWENS-ILLINOIS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Tabular data dollars in millions, except per share amounts

**1. Segment Information**

The Company has four reportable segments based on its geographic locations: Europe, North America, South America and Asia Pacific. These four segments are aligned with the Company's internal approach to managing, reporting, and evaluating performance of its global glass operations. Certain assets and activities not directly related to one of the regions or to glass manufacturing are reported with Retained corporate costs and other. These include licensing, equipment sales, global engineering, and non-glass equity investments. Retained corporate costs and other also includes certain headquarters administrative and facilities costs and certain incentive compensation and other benefit plan costs that are global in nature and are not allocable to the reportable segments.

The Company's measure of profit for its reportable segments is segment operating profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations as well as certain retained corporate costs. The Company's management uses segment operating profit, in combination with net sales and selected cash flow information, to evaluate performance and to allocate resources. Segment operating profit for reportable 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.

Financial information for the three and six months ended June 30, 2014 and 2013 regarding the Company's reportable segments is as follows:

|                           | Three months ended June 30, |          | Six months ended June 30, |          |
|---------------------------|-----------------------------|----------|---------------------------|----------|
|                           | 2014                        | 2013     | 2014                      | 2013     |
| Net sales:                |                             |          |                           |          |
| Europe                    | \$ 790                      | \$ 746   | \$ 1,496                  | \$ 1,396 |
| North America             | 541                         | 527      | 1,026                     | 996      |
| South America             | 274                         | 269      | 513                       | 538      |
| Asia Pacific              | 184                         | 231      | 387                       | 478      |
| Reportable segment totals | 1,789                       | 1,773    | 3,422                     | 3,408    |
| Other                     | 8                           | 8        | 14                        | 14       |
| Net sales                 | \$ 1,797                    | \$ 1,781 | \$ 3,436                  | \$ 3,422 |

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|   | Three months ended June 30, |        | Six months ended June 30, |        |
|---|-----------------------------|--------|---------------------------|--------|
|   | 2014                        | 2013   | 2014                      | 2013   |
| Segment operating profit:                               |                             |        |                           |        |
| Europe  | \$ 109                      | \$ 111 | \$ 196                    | \$ 170 |
| North America   | 83                          | 93     | 148                       | 167    |
| South America   | 53                          | 37     | 94                        | 90     |
| Asia Pacific  | 17                          | 26     | 42                        | 66     |
| Reportable segment totals                               | 262                         | 267    | 480                       | 493    |
| Items excluded from segment operating profit:           |                             |        |                           |        |
| Retained corporate costs and other                      | (29)                        | (34)   | (59)                      | (65)   |
| Restructuring, asset impairment and related charges     |                             |        |                           | (10)   |
| Interest expense, net                                   | (54)                        | (56)   | (108)                     | (124)  |
| Earnings from continuing operations before income taxes | \$ 179                      | \$ 177 | \$ 313                    | \$ 294 |

Financial information regarding the Company's total assets is as follows:

|                           | June 30, | December 31, | June 30, |
|---------------------------|----------|--------------|----------|
|                           | 2014     | 2013         | 2013     |
| Total assets:             |          |              |          |
| Europe                    | \$ 3,667 | \$ 3,509     | \$ 3,452 |
| North America             | 2,087    | 1,995        | 2,029    |
| South America             | 1,436    | 1,467        | 1,495    |
| Asia Pacific              | 1,127    | 1,150        | 1,178    |
| Reportable segment totals | 8,317    | 8,121        | 8,154    |
| Other                     | 274      | 298          | 256      |
| Consolidated totals       | \$ 8,591 | \$ 8,419     | \$ 8,410 |

## 2. Receivables

Receivables consist of the following:

|  | June 30, | December 31, | June 30, |
|--|----------|--------------|----------|
|  | 2014     | 2013         | 2013     |
| Trade accounts receivable                            | \$ 976   | \$ 757       | \$ 1,008 |
| Less: allowances for doubtful accounts and discounts | 40       | 39           | 42       |
| Net trade receivables                                | 936      | 718          | 966      |
| Other receivables                                    | 211      | 225          | 193      |
|  | \$ 1,147 | \$ 943       | \$ 1,159 |

The Company uses various factoring programs to sell certain receivables to financial institutions as part of managing its cash flows. The amount of receivables sold by the Company was \$190 million, \$192 million, and \$90 million at June 30, 2014, December 31, 2013, and June 30, 2013, respectively. The Company has no continuing involvement with the sold receivables.

**3. Inventories**

Major classes of inventory are as follows:

7

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|                    | June 30,<br>2014 |    | December 31,<br>2013 |    | June 30,<br>2013 |
|--------------------|------------------|----|----------------------|----|------------------|
| Finished goods     | \$ 1,032         | \$ | 958                  | \$ | 1,006            |
| Raw materials      | 127              |    | 113                  |    | 125              |
| Operating supplies | 45               |    | 46                   |    | 44               |
|                    | \$ 1,204         | \$ | 1,117                | \$ | 1,175            |

#### 4. Derivative Instruments

The Company has certain derivative assets and liabilities which consist of natural gas forwards and foreign exchange option and forward contracts. The Company uses an income approach to valuing these contracts. Natural gas forward rates and foreign exchange rates are the significant inputs into the valuation models. These inputs are observable in active markets over the terms of the instruments the Company holds, and accordingly, the Company classifies its derivative assets and liabilities as Level 2 in the hierarchy. The Company also evaluates counterparty risk in determining fair values.

##### *Commodity Futures Contracts Designated as Cash Flow Hedges*

The significant majority of the Company's sales volume in North America is tied to customer contracts that contain provisions that pass the price of natural gas to the customer. In certain of these contracts, the customer has the option of fixing the natural gas price component for a specified period of time. When the customer exercises that option the Company enters into commodity futures contracts for the related natural gas requirements, in order to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. At June 30, 2014 and 2013, the Company had entered into commodity futures contracts covering approximately 2,900,000 MM BTUs and 7,400,000 MM BTUs, respectively, primarily related to customer requests to lock the price of natural gas.

The Company accounts for these futures contracts as cash flow hedges and recognizes them on the balance sheet at fair value. The effective portion of changes in the fair value of a derivative that is designated as, and meets the required criteria for, a cash flow hedge is recorded in the Accumulated Other Comprehensive Income component of share owners' equity (OCI) and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. An unrecognized gain of \$1 million at June 30, 2014 and an unrecognized loss of \$1 million at June 30, 2013 related to the commodity futures contracts was included in Accumulated OCI, and will be reclassified into earnings over the next twelve months. Any material portion of the change in the fair value of a derivative designated as a cash flow hedge that is deemed to be ineffective is recognized in current earnings. The ineffectiveness related to these natural gas hedges for the three and six months ended June 30, 2014 and 2013 was not material.

The effect of the commodity futures contracts on the results of operations for the three months ended June 30, 2014 and 2013 is as follows:

| Amount of Gain (Loss)<br>Recognized in OCI on<br>Commodity Futures Contracts<br>(Effective Portion) |      | Amount of Gain<br>Reclassified from<br>Accumulated OCI into Income<br>(reported in Cost of goods sold)<br>(Effective Portion) |      |
|---|------|---|------|
| 2014  | 2013 | 2014  | 2013 |
| \$  | \$   | (3)   | \$   |
|   |      | 1   | \$   |
|   |      |   | 1    |

The effect of the commodity futures contracts on the results of operations for the six months ended June 30, 2014 and 2013 is as follows:

| Amount of Gain<br>Recognized in OCI on<br>Commodity Futures Contracts<br>(Effective Portion) |      | Amount of Gain<br>Reclassified from<br>Accumulated OCI into Income<br>(reported in Cost of goods sold)<br>(Effective Portion) |      |
|--|------|---|------|
| 2014   | 2013 | 2014  | 2013 |
| \$   | 2    | \$  | 2    |
|  |      |   |      |

*Forward Exchange Contracts not Designated as Hedging Instruments*

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

At June 30, 2014 and 2013, various subsidiaries of the Company had outstanding forward exchange and option agreements denominated in various currencies covering the equivalent of approximately \$510 million and \$740 million, respectively, related primarily to intercompany transactions and loans.

The effect of the forward exchange contracts on the results of operations for the three months ended June 30, 2014 and 2013 is as follows:

| Location of Gain (Loss)<br>Recognized in Income on<br>Forward Exchange Contracts | Amount of Gain (Loss)<br>Recognized in Income on<br>Forward Exchange Contracts |      |
|--|--|------|
|  | 2014   | 2013 |
| Other expense, net   | \$   | \$   |
|  |  | (9)  |

The effect of the forward exchange contracts on the results of operations for the six months ended June 30, 2014 and 2013 is as follows:



| Location of Gain (Loss)<br>Recognized in Income on<br>Forward Exchange Contracts | Amount of Gain (Loss)<br>Recognized in Income on<br>Forward Exchange Contracts |         |
|--|--|---------|
|  | 2014   | 2013    |
| Other expense, net   | \$ (1)   | \$ (12) |

*Balance Sheet Classification*

The Company records the fair values of derivative financial instruments on the balance sheet as follows: (a) receivables if the instrument has a positive fair value and maturity within one year, (b) other assets if the instrument has a positive fair value and maturity after one year, (c) other liabilities (current) if the instrument has a negative fair value and maturity within one year, and (d) other long-term liabilities if the instrument has a negative fair value and maturity after one year. The following table shows the amount and classification (as noted above) of the Company's derivatives:

|  | Balance<br>Sheet<br>Location | June 30,<br>2014 | Fair Value<br>December 31,<br>2013 | June 30,<br>2013 |
|--|------------------------------|------------------|------------------------------------|------------------|
| <b>Asset Derivatives:</b>                          |                              |                  |                                    |                  |
| Derivatives designated as hedging instruments:     |                              |                  |                                    |                  |
| Commodity futures contracts                        | a                            | \$ 1             | \$ 1                               | \$               |
| Derivatives not designated as hedging instruments: |                              |                  |                                    |                  |
| Forward exchange contracts                         | a                            | 3                | 3                                  | 2                |
| Total asset derivatives                            |                              | \$ 4             | \$ 4                               | \$ 2             |
| <b>Liability Derivatives:</b>                      |                              |                  |                                    |                  |
| Derivatives designated as hedging instruments:     |                              |                  |                                    |                  |
| Commodity futures contracts                        | c                            | \$               | \$                                 | \$ 1             |
| Derivatives not designated as hedging instruments: |                              |                  |                                    |                  |
| Forward exchange contracts                         | c                            | 2                | 7                                  | 9                |
| Total liability derivatives                        |                              | \$ 2             | \$ 7                               | \$ 10            |

**5. Restructuring Accruals**

Selected information related to the restructuring accruals for the three months ended June 30, 2014 and 2013 is as follows:

|   | <b>European<br/>Asset<br/>Optimization</b> | <b>Asia Pacific<br/>Restructuring</b> | <b>Other<br/>Restructuring<br/>Actions</b> | <b>Total<br/>Restructuring</b> |
|---|--|---------------------------------------|--|--------------------------------|
| Balance at April 1, 2014                                  | \$ 27                                      | \$ 12                                 | \$ 46                                      | \$ 85                          |
| Net cash paid, principally severance and related benefits | (3)  | (9)                                   | (5)  | (17)                           |
| Other, including foreign exchange translation             | (4)  |                                       | 1  | (3)                            |
| Balance at June 30, 2014                                  | \$ 20                                      | \$ 3                                  | \$ 42                                      | \$ 65                          |

|   | <b>European<br/>Asset<br/>Optimization</b> | <b>Asia Pacific<br/>Restructuring</b> | <b>Other<br/>Restructuring<br/>Actions</b> | <b>Total<br/>Restructuring</b> |
|---|--|---------------------------------------|--|--------------------------------|
| Balance at April 1, 2013                                  | \$ 37                                      | \$ 4                                  | \$ 54                                      | \$ 95                          |
| Net cash paid, principally severance and related benefits | (7)  | (1)                                   | (5)  | (13)                           |
| Other, including foreign exchange translation             | 1  |                                       |  | 1                              |
| Balance at June 30, 2013                                  | \$ 31                                      | \$ 3                                  | \$ 49                                      | \$ 83                          |

Selected information related to the restructuring accruals for the six months ended June 30, 2014 and 2013 is as follows:

|   | <b>European<br/>Asset<br/>Optimization</b> | <b>Asia Pacific<br/>Restructuring</b> | <b>Other<br/>Restructuring<br/>Actions</b> | <b>Total<br/>Restructuring</b> |
|---|--|---------------------------------------|--|--------------------------------|
| Balance at January 1, 2014                                | \$ 30                                      | \$ 20                                 | \$ 64                                      | \$ 114                         |
| Net cash paid, principally severance and related benefits | (5)  | (13)                                  | (20)                                       | (38)                           |
| Other, including foreign exchange translation             | (5)  | (4)                                   | (2)  | (11)                           |
| Balance at June 30, 2014                                  | \$ 20                                      | \$ 3                                  | \$ 42                                      | \$ 65                          |

|   | <b>European<br/>Asset<br/>Optimization</b> | <b>Asia Pacific<br/>Restructuring</b> | <b>Other<br/>Restructuring<br/>Actions</b> | <b>Total<br/>Restructuring</b> |
|---|--|---------------------------------------|--|--------------------------------|
| Balance at January 1, 2013                                | \$ 53                                      | \$ 6                                  | \$ 64                                      | \$ 123                         |
| Charges   | 7  | 2                                     | 1  | 10                             |
| Write-down of assets to net realizable value              | (2)  |                                       |  | (2)                            |
| Net cash paid, principally severance and related benefits | (27)                                       | (5)                                   | (15)                                       | (47)                           |
| Other, including foreign exchange translation             |  |                                       | (1)  | (1)                            |
| Balance at June 30, 2013                                  | \$ 31                                      | \$ 3                                  | \$ 49                                      | \$ 83                          |



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The Company's decisions to curtail selected production capacity have resulted in write downs of certain long-lived assets to the extent their carrying amounts exceeded fair value or fair value less cost to sell. The Company classified the significant assumptions used to determine the fair value of the impaired assets, which was not material, as Level 3 in the fair value hierarchy as set forth in the general accounting principles for fair value measurements.

*European Asset Optimization*

During the six months ended June 30, 2013, the Company recorded charges of \$7 million related to the European Asset Optimization program. These charges represented additional employee costs that the Company was required to record for the furnace closures announced during the fourth quarter of 2012.

**6. Pensions Benefit Plans and Other Postretirement Benefits**

The components of the net periodic pension cost for the three months ended June 30, 2014 and 2013 are as follows:

|                           | U.S. |       | Non-U.S. |       |
|---------------------------|------|-------|----------|-------|
|                           | 2014 | 2013  | 2014     | 2013  |
| Service cost              | \$ 5 | \$ 7  | \$ 7     | \$ 8  |
| Interest cost             | 26   | 27    | 19       | 17    |
| Expected asset return     | (44) | (46)  | (24)     | (22)  |
| <b>Amortization:</b>      |      |       |          |       |
| Prior Service cost        |      |       | (1)      |       |
| Actuarial loss            | 19   | 27    | 7        | 8     |
| Net periodic pension cost | \$ 6 | \$ 15 | \$ 8     | \$ 11 |

The components of the net periodic pension cost for the six months ended June 30, 2014 and 2013 are as follows:

|                           | U.S.  |       | Non-U.S. |       |
|---------------------------|-------|-------|----------|-------|
|                           | 2014  | 2013  | 2014     | 2013  |
| Service cost              | \$ 12 | \$ 14 | \$ 14    | \$ 16 |
| Interest cost             | 53    | 54    | 37       | 34    |
| Expected asset return     | (87)  | (92)  | (46)     | (45)  |
| <b>Amortization:</b>      |       |       |          |       |
| Prior Service cost        |       |       | (1)      |       |
| Actuarial loss            | 36    | 55    | 11       | 16    |
| Net periodic pension cost | \$ 14 | \$ 31 | \$ 15    | \$ 21 |

The U.S. pension expense for the six months ended June 30, 2013 excludes \$8 million of special termination benefits that were recorded in discontinued operations in 2013.

During the second quarter of 2013, the Company recorded a curtailment gain of \$5 million related to modifications made to one of its U.S. postretirement benefit plans that reduced or eliminated certain health care and life insurance benefits. These modifications also resulted in a \$55 million reduction in the postretirement benefit obligation that was recognized in accumulated other comprehensive income.

**7. Income Taxes**

The Company performs a quarterly review of the annual effective tax rate and makes changes if necessary based on new information or events. The estimated annual effective tax rate is

forecasted quarterly using actual historical information and forward-looking estimates. The estimated annual effective tax rate may fluctuate due to changes in forecasted annual operating income; changes in the forecasted mix of earnings by country; changes to the valuation allowance for deferred tax assets (such changes would be recorded discretely in the quarter in which they occur); changes to actual or forecasted permanent book to tax differences (non-deductible expenses); impacts from future tax settlements with state, federal or foreign tax authorities (such changes would be recorded discretely in the quarter in which they occur); or impacts from tax law changes. To the extent such changes impact deferred tax assets/liabilities, these changes would generally be recorded discretely in the quarter in which they occur. Additionally, the annual effective tax rate differs from the statutory U.S. Federal tax rate of 35% primarily because of valuation allowances in some jurisdictions and varying non-U.S. tax rates.

In the U.S., the Company has experienced cumulative losses in previous years and has recorded a valuation allowance against its deferred tax assets. The Company's U.S. operations are in a three-year cumulative income position, but this is not solely determinative of the need for a valuation allowance. The Company considered this factor and all other available positive and negative evidence and concluded that it is still more likely than not that the net deferred tax assets in the U.S. will not be realized, and accordingly continued to record a valuation allowance. The evidence considered included the magnitude of the current three-year cumulative income compared to historical losses, expected impact of tax planning strategies, interest rates, and the overall business environment. The Company continues to evaluate its cumulative income position and income trend as well as its future projections of sustained profitability and whether this profitability trend constitutes sufficient positive evidence to support a reversal of the valuation allowance (in full or in part). The amount of the valuation allowance recorded in the U.S. as of December 31, 2013 was \$837 million.

## 8. Debt

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

|   | June 30,<br>2014 | December 31,<br>2013 | June 30,<br>2013 |
|---|------------------|----------------------|------------------|
| <b>Secured Credit Agreement:</b>              |                  |                      |                  |
| <b>Revolving Credit Facility:</b>             |                  |                      |                  |
| Revolving Loans                               | \$ 65            | \$                   | \$               |
| <b>Term Loans:</b>                            |                  |                      |                  |
| Term Loan A                                   |                  |                      | 23               |
| Term Loan B                                   | 405              | 405                  | 525              |
| Term Loan C (81 million CAD at June 30, 2014) | 76               | 76                   | 97               |
| Term Loan D ( 85 million at June 30, 2014)    | 116              | 117                  | 161              |
| <b>Senior Notes:</b>                          |                  |                      |                  |
| 3.00%, Exchangeable, due 2015                 | 611              | 617                  | 607              |
| 7.375%, due 2016                              | 595              | 593                  | 592              |
| 6.75%, due 2020 ( 500 million)                | 682              | 690                  | 653              |
| 4.875%, due 2021 ( 330 million)               | 450              | 455                  | 431              |
| <b>Senior Debentures:</b>                     |                  |                      |                  |
| 7.80%, due 2018                               | 250              | 250                  | 250              |
| Other   | 66               | 58                   | 84               |
| <b>Total long-term debt</b>                   | <b>3,316</b>     | <b>3,261</b>         | <b>3,423</b>     |
| Less amounts due within one year              | 696              | 16                   | 87               |
| <b>Long-term debt</b>                         | <b>\$ 2,620</b>  | <b>\$ 3,245</b>      | <b>\$ 3,336</b>  |

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement



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(the Agreement). At June 30, 2014, the Agreement included a \$900 million revolving credit facility, a \$405 million term loan, a 81 million Canadian dollar term loan, and a 85 million term loan, each of which has a final maturity date of May 19, 2016. At June 30, 2014, the Company's subsidiary borrowers had unused credit of \$727 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at June 30, 2014 was 2.03%.

The Company repurchased \$15 million and \$46 million of the 2015 Exchangeable Notes during the six months ended June 30, 2014 and June 30, 2013, respectively. The amount by which the cash paid exceeded the fair value of the notes repurchased was recorded as a reduction to share owners' equity. The Company recorded \$3 million of additional interest charges for the loss on debt extinguishment and the related write-off of unamortized finance fees for the six months ended June 30, 2013. As of June 30, 2014, the remaining \$611 million balance of the Exchangeable Notes are classified as current liabilities on the balance sheet since they mature on June 1, 2015. The Company intends to refinance these notes prior to their due date.

During March 2013, the Company issued senior notes with a face value of 330 million due March 31, 2021. The notes bear interest at 4.875% and are guaranteed by substantially all of the Company's domestic subsidiaries. The net proceeds, after deducting debt issuance costs, totaled approximately \$418 million.

During March 2013, the Company discharged, in accordance with the indenture, all 300 million of the 6.875% senior notes due 2017. The Company recorded \$11 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees.

The Company has a 215 million European accounts receivable securitization program, which extends through September 2016, subject to periodic renewal of backup credit lines.

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

|  | June 30,<br>2014 | December 31,<br>2013 | June 30,<br>2013 |
|--|------------------|----------------------|------------------|
| Balance (included in short-term loans) | \$ 294           | \$ 276               | \$ 290           |
| Weighted average interest rate         | 1.44%            | 1.41%                | 1.20%            |

The carrying amounts reported for the accounts receivable securitization program, and certain long-term debt obligations subject to frequently redetermined interest rates, approximate fair value. Fair values for the Company's significant fixed rate debt obligations are based on published market quotations, and are classified as Level 1 in the fair value hierarchy.

Fair values at June 30, 2014 of the Company's significant fixed rate debt obligations are as follows:



|                                 | Principal<br>Amount | Indicated<br>Market<br>Price | Fair<br>Value |
|---------------------------------|---------------------|------------------------------|---------------|
| <b>Senior Notes:</b>            |                     |                              |               |
| 3.00%, Exchangeable, due 2015   | \$ 611              | 102.52                       | \$ 626        |
| 7.375%, due 2016                | 595                 | 110.63                       | 658           |
| 6.75%, due 2020 ( 500 million)  | 682                 | 117.99                       | 805           |
| 4.875%, due 2021 ( 330 million) | 450                 | 107.68                       | 485           |
| <b>Senior Debentures:</b>       |                     |                              |               |
| 7.80%, due 2018                 | 250                 | 116.81                       | 292           |

## 9. Contingencies

### *Asbestos*

The Company is a defendant in numerous lawsuits alleging bodily injury and death as a result of exposure to asbestos dust. 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 typical asbestos personal injury lawsuit alleges various theories of liability, including negligence, gross negligence and strict liability and seeks compensatory and in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

As of June 30, 2014, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 2,500 plaintiffs and claimants. Based on an analysis of the lawsuits pending as of December 31, 2013, approximately 80% of plaintiffs either do not specify the monetary damages sought, or in the case of court filings, claim an amount sufficient to invoke the jurisdictional minimum of the trial court. Approximately 16% of plaintiffs specifically plead damages above the jurisdictional minimum up to, and including, \$15 million or less, and 3% of plaintiffs specifically plead damages greater than \$15 million but less than \$100 million. Fewer than 1% of plaintiffs specifically plead damages equal to or greater than \$100 million.

As indicated by the foregoing summary, current pleading practice permits considerable variation in the assertion of monetary damages. The Company's experience resolving hundreds of thousands of asbestos claims and lawsuits over an extended period demonstrates that the monetary relief that may be alleged in a complaint bears little relevance to a claim's merits or disposition value. Rather, the amount potentially recoverable is determined by such factors as the severity of the plaintiff's asbestos disease, the product identification evidence against the Company and other defendants, the defenses available to the Company and other defendants, the specific jurisdiction in which the claim is made, and the plaintiff's medical history and exposure to other disease-causing agents.

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.



The Company has also been 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, 2014, has disposed of the asbestos claims of approximately 394,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$8,700. Certain of these dispositions have included deferred amounts payable over a number of years. Deferred amounts payable totaled approximately \$24 million at June 30, 2014 (\$12 million at December 31, 2013) and are included in the foregoing average indemnity payment per claim. The Company's asbestos indemnity payments 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. Failure of claimants to meet certain medical and product exposure criteria in the Company's administrative claims handling agreements has generally reduced the number of marginal or suspect claims that would otherwise have been received. In addition, certain courts and legislatures have reduced or eliminated the number of marginal or suspect claims that the Company otherwise would have received. These developments generally have had the effect of increasing the Company's per-claim average indemnity payment over time.

The Company believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot reasonably be estimated. Beginning with the initial liability of \$975 million established in 1993, the Company has accrued a total of approximately \$4.3 billion through 2013, before insurance recoveries, for its asbestos-related liability. The Company's ability to reasonably estimate its liability has been significantly affected by, among other factors, the volatility of asbestos-related litigation in the United States, the significant number of co-defendants that have filed for bankruptcy, the magnitude and timing of co-defendant bankruptcy trust payments, the inherent uncertainty of future disease incidence and claiming patterns against the Company, and the success of efforts by co-defendants to restrict or eliminate their liability in the litigation.

The Company has continued to monitor trends that 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 material components of the Company's accrued liability are based on amounts determined by the Company in connection with its annual comprehensive review and consist of the following estimates, to the extent it is probable that such liabilities have been incurred and can be reasonably estimated: (i) the liability for asbestos claims already asserted against the Company; (ii) the liability for asbestos claims not yet asserted against the Company, but which the Company believes will be asserted in the next several years; and (iii) 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 incidence of serious disease cases and claiming patterns for such cases;
- d) the extent to which the Company is able to defend itself successfully at trial or on appeal;
- e) the number and timing of additional co-defendant bankruptcies; and
- f) the extent to which co-defendants with substantial resources and assets continue to participate significantly in the resolution of future asbestos lawsuits and claims.

As noted above, the Company conducts a comprehensive review of its asbestos-related liabilities and costs annually in connection with finalizing and reporting its annual results of operations, unless significant changes in trends or new developments warrant an earlier review. If the results of an annual comprehensive review indicate that the existing amount of the accrued liability is insufficient to cover its estimated future asbestos-related costs, then the Company will record an appropriate charge to increase the accrued liability. The Company believes that a reasonable estimation of the probable amount of the liability for claims not yet asserted against the Company is not possible beyond a period of several years. Therefore, while the results of future annual comprehensive reviews cannot be determined, the Company expects the addition of one year to the estimation period will result in an annual charge.

The Company's reported results of operations for 2013 were materially affected by the \$145 million fourth quarter charge for asbestos-related costs and asbestos-related payments continue to be substantial. Any future additional charge would likewise materially affect the Company's results of operations for the period in which it is recorded. Also, the continued use of significant amounts of cash for asbestos-related costs has affected and may 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.

#### *Other Matters*

The Company conducted an internal investigation into conduct in certain of its overseas operations that may have violated the anti-bribery provisions of the United States Foreign Corrupt Practices Act (the "FCPA"), the FCPA's books and records and internal controls provisions, the Company's own internal policies, and various local laws. In October 2012, the Company voluntarily disclosed these matters to the U.S. Department of Justice (the "DOJ") and the Securities and Exchange Commission (the "SEC").

On July 18, 2013, the Company received a letter from the DOJ indicating that it presently did not intend to take any enforcement action and is closing its inquiry into the matter.

The Company is presently unable to predict the duration, scope or result of an investigation by the SEC, if any, or whether the SEC will commence any legal action. The SEC has a broad range of civil sanctions under the FCPA and other laws and regulations including, but not limited to, injunctive relief, disgorgement, penalties, and modifications to business practices. The Company could also be subject to

investigation and sanctions outside the United States. While the Company is currently unable to quantify the impact of any potential sanctions or remedial measures, it does not expect such actions will have a material adverse effect on the Company's liquidity, results of operations or financial condition.

The Company received a non-income tax assessment from a foreign tax authority for approximately \$90 million (including penalties and interest). The Company challenged this assessment, but the tax authority's position was upheld in court. The Company strongly disagrees with this ruling and believes it to be contradictory to other court rulings in the Company's favor. Although the Company cannot predict the ultimate outcome of this case, it believes that it is probable that the tax authority's assessment will be overturned by a higher court, and therefore, the Company has not established an accrual. In order to contest the lower court rulings, legal rules require the Company to deposit the amount of the tax assessment, which will be remitted in monthly installments over the next twelve months. A favorable ruling by the higher court will result in a return to the Company of amounts paid. An unfavorable ruling will result in the forfeiture of the deposit, a charge of approximately \$60 million and a non-income tax refund of \$30 million. As of June 30, 2014, the Company has made installment payments totaling \$70 million, which is included in Other assets on the balance sheet.

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 non-routine and involve compensatory, punitive or treble damage claims as well as other types of relief. The Company records a liability for such matters when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. Recorded amounts are reviewed and adjusted to reflect changes in the factors upon which the estimates are based including additional information, negotiations, settlements, and other events.

#### **10. Share Owners' Equity**

The activity in share owners' equity for the three months ended June 30, 2014 and 2013 is as follows:

|  | Share Owners Equity of the Company |                                |                |                   |                                      |                           |                           |
|--|------------------------------------|--------------------------------|----------------|-------------------|--------------------------------------|---------------------------|---------------------------|
|  | Common Stock                       | Capital in Excess of Par Value | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Non-controlling Interests | Total Share Owners Equity |
| Balance on April 1, 2014                   | \$ 2                               | \$ 3,052                       | \$ (452)       | \$ 90             | \$ (1,062)                           | \$ 130                    | \$ 1,760                  |
| Issuance of common stock (57,815 shares)   |                                    | 1                              |                |                   |                                      |                           | 1                         |
| Reissuance of common stock (49,026 shares) |                                    |                                | 1              |                   |                                      |                           | 1                         |
| Treasury shares purchased (364,436 shares) |                                    |                                | (12)           |                   |                                      |                           | (12)                      |
| Stock compensation                         |                                    | 6                              |                |                   |                                      |                           | 6                         |
| Net earnings                               |                                    |                                |                | 114               |                                      | 6                         | 120                       |
| Other comprehensive income (loss)          |                                    |                                |                |                   | 60                                   | 2                         | 62                        |
| Distributions to noncontrolling interests  |                                    |                                |                |                   |                                      | (16)                      | (16)                      |
| Balance on June 30, 2014                   | \$ 2                               | \$ 3,059                       | \$ (463)       | \$ 204            | \$ (1,002)                           | \$ 122                    | \$ 1,922                  |

|   | Share Owners Equity of the Company |                                |                |               |                                      |                           |                           |
|---|------------------------------------|--------------------------------|----------------|---------------|--------------------------------------|---------------------------|---------------------------|
|   | Common Stock                       | Capital in Excess of Par Value | Treasury Stock | Retained Loss | Accumulated Other Comprehensive Loss | Non-controlling Interests | Total Share Owners Equity |
| Balance on April 1, 2013                    | \$ 2                               | \$ 3,013                       | \$ (424)       | \$ (126)      | \$ (1,485)                           | \$ 175                    | \$ 1,155                  |
| Issuance of common stock (114,861 shares)   |                                    | 3                              |                |               |                                      |                           | 3                         |
| Reissuance of common stock (57,153 shares)  |                                    |                                | 1              |               |                                      |                           | 1                         |
| Treasury shares purchased (348,289 shares)  |                                    |                                | (10)           |               |                                      |                           | (10)                      |
| Repurchase of exchangeable notes            |                                    | (1)                            |                |               |                                      |                           | (1)                       |
| Stock compensation                          |                                    | 3                              |                |               |                                      |                           | 3                         |
| Net earnings                                |                                    |                                |                | 132           |                                      | 5                         | 137                       |
| Other comprehensive income (loss)           |                                    |                                |                |               | (74)                                 | (2)                       | (76)                      |
| Distributions to noncontrolling interests   |                                    |                                |                |               |                                      | (21)                      | (21)                      |
| Contributions from noncontrolling interests |                                    |                                |                |               |                                      | 3                         | 3                         |
| Balance on June 30, 2013                    | \$ 2                               | \$ 3,018                       | \$ (433)       | \$ 6          | \$ (1,559)                           | \$ 160                    | \$ 1,194                  |

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The activity in share owners' equity for the six months ended June 30, 2014 and 2013 is as follows:

|  | Share Owners' Equity of the Company |                                |                |                          |                                      |                           |                            |
|--|-------------------------------------|--------------------------------|----------------|--------------------------|--------------------------------------|---------------------------|----------------------------|
|  | Common Stock                        | Capital in Excess of Par Value | Treasury Stock | Retained Earnings (Loss) | Accumulated Other Comprehensive Loss | Non-controlling Interests | Total Share Owners' Equity |
| Balance on January 1, 2014                 | \$ 2                                | \$ 3,040                       | \$ (454)       | \$ (11)                  | \$ (1,121)                           | \$ 147                    | \$ 1,603                   |
| Issuance of common stock (213,542 shares)  |                                     | 5                              |                |                          |                                      |                           | 5                          |
| Reissuance of common stock (97,067 shares) |                                     |                                | 3              |                          |                                      |                           | 3                          |
| Treasury shares purchased (364,436 shares) |                                     |                                | (12)           |                          |                                      |                           | (12)                       |
| Stock compensation                         |                                     | 14                             |                |                          |                                      |                           | 14                         |
| Net earnings                               |                                     |                                |                | 215                      |                                      | 11                        | 226                        |
| Other comprehensive income (loss)          |                                     |                                |                |                          | 119                                  | (1)                       | 118                        |
| Distributions to noncontrolling interests  |                                     |                                |                |                          |                                      | (35)                      | (35)                       |
| Balance on June 30, 2014                   | \$ 2                                | \$ 3,059                       | \$ (463)       | \$ 204                   | \$ (1,002)                           | \$ 122                    | \$ 1,922                   |

|   | Share Owners' Equity of the Company |                                |                |               |                                      |                           |                            |
|---|-------------------------------------|--------------------------------|----------------|---------------|--------------------------------------|---------------------------|----------------------------|
|   | Common Stock                        | Capital in Excess of Par Value | Treasury Stock | Retained Loss | Accumulated Other Comprehensive Loss | Non-controlling Interests | Total Share Owners' Equity |
| Balance on January 1, 2013                  | \$ 2                                | \$ 3,005                       | \$ (425)       | \$ (195)      | \$ (1,506)                           | \$ 174                    | \$ 1,055                   |
| Issuance of common stock (430,565 shares)   |                                     | 7                              |                |               |                                      |                           | 7                          |
| Reissuance of common stock (97,924 shares)  |                                     |                                | 2              |               |                                      |                           | 2                          |
| Treasury shares purchased (348,289 shares)  |                                     |                                | (10)           |               |                                      |                           | (10)                       |
| Repurchase of exchangeable notes            |                                     | (1)                            |                |               |                                      |                           | (1)                        |
| Stock compensation                          |                                     | 7                              |                |               |                                      |                           | 7                          |
| Net earnings                                |                                     |                                |                | 201           |                                      | 10                        | 211                        |
| Other comprehensive income (loss)           |                                     |                                |                |               | (53)                                 | (6)                       | (59)                       |
| Distributions to noncontrolling interests   |                                     |                                |                |               |                                      | (21)                      | (21)                       |
| Contributions from noncontrolling interests |                                     |                                |                |               |                                      | 3                         | 3                          |
| Balance on June 30, 2013                    | \$ 2                                | \$ 3,018                       | \$ (433)       | \$ 6          | \$ (1,559)                           | \$ 160                    | \$ 1,194                   |

During the three and six months ended June 30, 2014, the Company purchased 364,000 shares of its common stock for \$12 million pursuant to authorization by its Board of Directors in December 2013 to purchase up to \$100 million of the Company's common stock through December 31, 2015.

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During the three and six months ended June 30, 2013, the Company purchased 348,000 shares of its common stock for \$10 million pursuant to authorization by its Board of Directors in August 2012 to purchase up to \$75 million of the Company's common stock through December 31, 2013.

The Company has 250,000,000 shares of common stock authorized with a par value of \$.01 per share. Shares outstanding are as follows:



|   | June 30,<br>2014 | Shares Outstanding (in thousands)<br>December 31,<br>2013 | June 30,<br>2013 |
|---|------------------|---|------------------|
| Shares of common stock issued (including treasury shares) | 183,897          | 183,500   | 182,511          |
| Treasury shares   | 19,053           | 18,786  | 18,152           |

### 11. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the three months ended June 30, 2014 and 2013 is as follows:

|  | Net Effect of<br>Exchange<br>Rate<br>Fluctuations | Change in<br>Certain<br>Derivative<br>Instruments | Employee<br>Benefit Plans | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|--|---|---|---------------------------|--|
| Balance on April 1, 2014   | \$ 264  | \$ (11)   | \$ (1,315)                | \$ (1,062)   |
| Change before reclassifications  | 47  |   |                           | 47   |
| Amounts reclassified from<br>accumulated other comprehensive<br>income |   | (1)(a)  | 22(b)                     | 21   |
| Translation effect   |   |   | (7)                       | (7)  |
| Tax effect   |   |   | (1)                       | (1)  |
| Other comprehensive income<br>attributable to the Company              | 47  | (1)   | 14                        | 60   |
| Balance on June 30, 2014   | \$ 311  | \$ (12)   | \$ (1,301)                | \$ (1,002)   |

|  | Net Effect of<br>Exchange<br>Rate<br>Fluctuations | Change in<br>Certain<br>Derivative<br>Instruments | Employee<br>Benefit Plans | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|--|---|---|---------------------------|--|
| Balance on April 1, 2013   | \$ 427  | \$ (10)   | \$ (1,902)                | \$ (1,485)   |
| Change before reclassifications  | (160)   | (3)   | 55                        | (108)  |
| Amounts reclassified from<br>accumulated other comprehensive<br>income |   | (1)(a)  | 32(b)                     | 31   |
| Translation effect   |   |   | 5                         | 5  |
| Tax effect   |   |   | (2)                       | (2)  |
| Other comprehensive income<br>attributable to the Company              | (160)   | (4)   | 90                        | (74)   |
| Balance on June 30, 2013   | \$ 267  | \$ (14)   | \$ (1,812)                | \$ (1,559)   |

The activity in accumulated other comprehensive loss for the six months ended June 30, 2014 and 2013 is as follows:

|  | Net Effect of<br>Exchange<br>Rate<br>Fluctuations | Change in<br>Certain<br>Derivative<br>Instruments | Employee<br>Benefit Plans | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|--|---|---|---------------------------|--|
| Balance on January 1, 2014   | \$ 229  | \$ (12)   | \$ (1,338)                | \$ (1,121)   |
| Change before reclassifications  | 82  | 2   |                           | 84   |
| Amounts reclassified from<br>accumulated other comprehensive<br>income |   | (2)(a)  | 45(b)                     | 43   |
| Translation effect   |   |   | (6)                       | (6)  |
| Tax effect   |   |   | (2)                       | (2)  |
| Other comprehensive income<br>attributable to the Company              | 82  |   | 37                        | 119  |
| Balance on June 30, 2014   | \$ 311  | \$ (12)   | \$ (1,301)                | \$ (1,002)   |

|  | Net Effect of<br>Exchange<br>Rate<br>Fluctuations | Change in<br>Certain<br>Derivative<br>Instruments | Employee<br>Benefit Plans | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|--|---|---|---------------------------|--|
| Balance on January 1, 2013   | \$ 455  | \$ (14)   | \$ (1,947)                | \$ (1,506)   |
| Change before reclassifications  | (188)   |   | 55                        | (133)  |
| Amounts reclassified from<br>accumulated other comprehensive<br>income |   |   | 69(b)                     | 69   |
| Translation effect   |   |   | 15                        | 15   |
| Tax effect   |   |   | (4)                       | (4)  |
| Other comprehensive income<br>attributable to the Company              | (188)   |   | 135                       | (53)   |
| Balance on June 30, 2013   | \$ 267  | \$ (14)   | \$ (1,812)                | \$ (1,559)   |

(a) Amount is included in Cost of goods sold on the Condensed Consolidated Results of Operations (see Note 4 for additional information).

(b) Amount is included in the computation of net periodic pension cost (see Note 6 for additional information) and net postretirement benefit cost.

## 12. Other Expense

During the six months ended June 30, 2013, the Company recorded charges of \$10 million for restructuring, asset impairment and related charges primarily related to the Company's European Asset Optimization program. See Note 5 for additional information.

**13. Earnings Per Share**

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

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|   | Three months ended June 30, |         |
|---|-----------------------------|---------|
|   | 2014                        | 2013    |
| <b>Numerator:</b>   |                             |         |
| Net earnings attributable to the Company  | \$ 114                      | \$ 132  |
| <b>Denominator (in thousands):</b>  |                             |         |
| Denominator for basic earnings per share - weighted average shares outstanding            | 164,906                     | 164,369 |
| <b>Effect of dilutive securities:</b>   |                             |         |
| Stock options and other   | 1,353                       | 1,362   |
| Denominator for diluted earnings per share - adjusted weighted average shares outstanding | 166,258                     | 165,731 |
| <b>Basic earnings per share:</b>  |                             |         |
| Earnings from continuing operations   | \$ 0.81                     | \$ 0.82 |
| Loss from discontinued operations   | (0.12)                      | (0.02)  |
| Net earnings  | \$ 0.69                     | \$ 0.80 |
| <b>Diluted earnings per share:</b>  |                             |         |
| Earnings from continuing operations   | \$ 0.80                     | \$ 0.81 |
| Loss from discontinued operations   | (0.12)                      | (0.02)  |
| Net earnings  | \$ 0.68                     | \$ 0.79 |

Options to purchase 613,869 and 1,519,897 weighted average shares of common stock which were outstanding during the three months ended June 30, 2014 and 2013, 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, |         |
|---|---------------------------|---------|
|   | 2014                      | 2013    |
| <b>Numerator:</b>   |                           |         |
| Net earnings attributable to the Company  | \$ 215                    | \$ 201  |
| <b>Denominator (in thousands):</b>  |                           |         |
| Denominator for basic earnings per share - weighted average shares outstanding            | 164,833                   | 164,220 |
| <b>Effect of dilutive securities:</b>   |                           |         |
| Stock options and other   | 1,379                     | 1,397   |
| Denominator for diluted earnings per share - adjusted weighted average shares outstanding | 166,212                   | 165,617 |
| <b>Basic earnings per share:</b>  |                           |         |
| Earnings from continuing operations   | \$ 1.43                   | \$ 1.30 |
| Loss from discontinued operations   | (0.13)                    | (0.08)  |
| Net earnings  | \$ 1.30                   | \$ 1.22 |
| <b>Diluted earnings per share:</b>  |                           |         |
| Earnings from continuing operations   | \$ 1.42                   | \$ 1.29 |
| Loss from discontinued operations   | (0.13)                    | (0.08)  |
| Net earnings  | \$ 1.29                   | \$ 1.21 |

Options to purchase 491,941 and 1,580,200 weighted average shares of common stock which were outstanding during the six months ended June 30, 2014 and 2013, 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.

The 2015 Exchangeable Notes have a dilutive effect only in those periods in which the Company's average stock price exceeds the exchange price of \$47.47 per share. For the three and six months ended June 30, 2014 and 2013, the Company's average stock price did not exceed the exchange price. Therefore, the potentially issuable shares resulting from the settlement of the 2015 Exchangeable Notes were not included in the calculation of diluted earnings per share.

#### 14. Supplemental Cash Flow Information

|                                   | Six months ended June 30, |        |
|-----------------------------------|---------------------------|--------|
|                                   | 2014                      | 2013   |
| Interest paid in cash             | \$ 99                     | \$ 113 |
| <b>Income taxes paid in cash:</b> |                           |        |
| U.S.                              | \$                        | \$ 1   |
| Non-U.S.                          | 68                        | 79     |
| Total income taxes paid in cash   | \$ 68                     | \$ 80  |

Cash interest for 2013 includes note repurchase premiums of \$10 million related to the discharge of the Company's 6.875% senior notes due 2017.

## 15. Discontinued Operations

The loss from discontinued operations of \$21 million for the six months ended June 30, 2014 included a settlement of a dispute with the purchaser of a previously disposed business, as well as ongoing costs related to the Venezuela expropriation. The loss from discontinued operations of \$13 million for the six months ended June 30, 2013 included special termination benefits related to a previously disposed business, as well as ongoing costs related to the Venezuela expropriation.

## 16. New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board, issued a new standards update *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The Company is evaluating the effect this standard will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor determined the effect of the standard on its ongoing financial reporting.

## 17. 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 senior debentures (the Parent); (2) the two subsidiaries which have guaranteed the senior debentures on a subordinated basis (the Guarantor Subsidiaries); and (3) all other subsidiaries (the Non-Guarantor Subsidiaries). The Guarantor Subsidiaries are 100% owned direct and indirect subsidiaries of the Company and their guarantees are full, unconditional and joint and several. They have no operations and function only as intermediate holding companies.

Certain reclassifications have been made to conform all of the financial information to the financial presentation on a consolidated basis. The principal eliminations relate to investments in subsidiaries and intercompany balances and transactions.

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| Balance Sheet   | June 30, 2014 |                           |                                   |              |            | Consolidated |
|---|---------------|---------------------------|-----------------------------------|--------------|------------|--------------|
|   | Parent        | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations |            |              |
| Current assets:   |               |                           |                                   |              |            |              |
| Cash and cash equivalents                               | \$            | \$                        | \$                                | 194          | \$         | \$ 194       |
| Receivables   |               |                           |                                   | 1,147        |            | 1,147        |
| Inventories   |               |                           |                                   | 1,204        |            | 1,204        |
| Prepaid expenses  |               |                           |                                   | 103          |            | 103          |
| Total current assets                                    |               |                           |                                   | 2,648        |            | 2,648        |
| Investments in and advances to subsidiaries             | 2,456         | 2,206                     |                                   |              | (4,662)    |              |
| Property, plant and equipment, net                      |               |                           |                                   | 2,661        |            | 2,661        |
| Goodwill  |               |                           |                                   | 2,065        |            | 2,065        |
| Other assets  |               |                           |                                   | 1,217        |            | 1,217        |
| Total assets  | \$ 2,456      | \$ 2,206                  | \$ 8,591                          |              | \$ (4,662) | \$ 8,591     |
| Current liabilities:                                    |               |                           |                                   |              |            |              |
| Short-term loans and long-term debt due within one year | \$            | \$                        | \$                                | 1,027        | \$         | \$ 1,027     |
| Current portion of asbestos liability                   | 150           |                           |                                   |              |            | 150          |
| Accounts payable  |               |                           |                                   | 1,123        |            | 1,123        |
| Other liabilities                                       |               |                           |                                   | 538          |            | 538          |
| Total current liabilities                               | 150           |                           |                                   | 2,688        |            | 2,838        |
| Long-term debt  | 250           |                           |                                   | 2,620        | (250)      | 2,620        |
| Asbestos-related liabilities                            | 256           |                           |                                   |              |            | 256          |
| Other long-term liabilities                             |               |                           |                                   | 955          |            | 955          |
| Share owners equity                                     | 1,800         | 2,206                     | 2,328                             |              | (4,412)    | 1,922        |
| Total liabilities and share owners equity               | \$ 2,456      | \$ 2,206                  | \$ 8,591                          |              | \$ (4,662) | \$ 8,591     |



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| Balance Sheet   | December 31, 2013 |                           |                                   |                   |                 | Consolidated |
|---|-------------------|---------------------------|-----------------------------------|-------------------|-----------------|--------------|
|   | Parent            | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations      |                 |              |
| <b>Current assets:</b>                                  |                   |                           |                                   |                   |                 |              |
| Cash and cash equivalents                               | \$                | \$                        | \$                                | 383               | \$              | \$ 383       |
| Receivables   |                   |                           |                                   | 943               |                 | 943          |
| Inventories   |                   |                           |                                   | 1,117             |                 | 1,117        |
| Prepaid expenses  |                   |                           |                                   | 107               |                 | 107          |
| <b>Total current assets</b>                             |                   |                           |                                   | <b>2,550</b>      |                 | <b>2,550</b> |
| Investments in and advances to subsidiaries             | 2,154             | 1,904                     |                                   |                   | (4,058)         |              |
| Property, plant and equipment, net                      |                   |                           |                                   | 2,632             |                 | 2,632        |
| Goodwill  |                   |                           |                                   | 2,059             |                 | 2,059        |
| Other assets  |                   |                           |                                   | 1,178             |                 | 1,178        |
| <b>Total assets</b>                                     | <b>\$ 2,154</b>   | <b>\$ 1,904</b>           | <b>\$ 8,419</b>                   | <b>\$ (4,058)</b> | <b>\$ 8,419</b> |              |
| <b>Current liabilities:</b>                             |                   |                           |                                   |                   |                 |              |
| Short-term loans and long-term debt due within one year | \$                | \$                        | \$                                | 322               | \$              | \$ 322       |
| Current portion of asbestos liability                   | 150               |                           |                                   |                   |                 | 150          |
| Accounts payable  |                   |                           |                                   | 1,144             |                 | 1,144        |
| Other liabilities                                       |                   |                           |                                   | 638               |                 | 638          |
| <b>Total current liabilities</b>                        | <b>150</b>        |                           |                                   | <b>2,104</b>      |                 | <b>2,254</b> |
| Long-term debt  | 250               |                           |                                   | 3,245             | (250)           | 3,245        |
| Asbestos-related liabilities                            | 298               |                           |                                   |                   |                 | 298          |
| Other long-term liabilities                             |                   |                           |                                   | 1,019             |                 | 1,019        |
| Share owners equity                                     | 1,456             | 1,904                     | 2,051                             | (3,808)           |                 | 1,603        |
| <b>Total liabilities and share owners equity</b>        | <b>\$ 2,154</b>   | <b>\$ 1,904</b>           | <b>\$ 8,419</b>                   | <b>\$ (4,058)</b> | <b>\$ 8,419</b> |              |

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| Balance Sheet   | June 30, 2013 |                           |                                   |       |            | Eliminations | Consolidated |
|---|---------------|---------------------------|-----------------------------------|-------|------------|--------------|--------------|
|   | Parent        | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries |       |            |              |              |
| Current assets:   |               |                           |                                   |       |            |              |              |
| Cash and cash equivalents                               | \$            | \$                        | \$                                | 249   | \$         | \$           | 249          |
| Receivables   |               |                           |                                   | 1,159 |            |              | 1,159        |
| Inventories   |               |                           |                                   | 1,175 |            |              | 1,175        |
| Prepaid expenses  |               |                           |                                   | 110   |            |              | 110          |
| Total current assets                                    |               |                           |                                   | 2,693 |            |              | 2,693        |
| Investments in and advances to subsidiaries             | 1,696         | 1,446                     |                                   |       | (3,142)    |              |              |
| Property, plant and equipment, net                      |               |                           |                                   | 2,600 |            |              | 2,600        |
| Goodwill  |               |                           |                                   | 2,031 |            |              | 2,031        |
| Other assets  |               |                           |                                   | 1,086 |            |              | 1,086        |
| Total assets  | \$ 1,696      | \$ 1,446                  | \$ 8,410                          |       | \$ (3,142) | \$ 8,410     |              |
| Current liabilities:                                    |               |                           |                                   |       |            |              |              |
| Short-term loans and long-term debt due within one year | \$            | \$                        | \$                                | 437   | \$         | \$           | 437          |
| Current portion of asbestos liability                   | 155           |                           |                                   |       |            |              | 155          |
| Accounts payable  |               |                           |                                   | 982   |            |              | 982          |
| Other liabilities                                       |               |                           |                                   | 545   |            |              | 545          |
| Total current liabilities                               | 155           |                           |                                   | 1,964 |            |              | 2,119        |
| Long-term debt  | 250           |                           |                                   | 3,336 | (250)      |              | 3,336        |
| Asbestos-related liabilities                            | 257           |                           |                                   |       |            |              | 257          |
| Other long-term liabilities                             |               |                           |                                   | 1,504 |            |              | 1,504        |
| Share owners equity                                     | 1,034         | 1,446                     | 1,606                             |       | (2,892)    |              | 1,194        |
| Total liabilities and share owners equity               | \$ 1,696      | \$ 1,446                  | \$ 8,410                          |       | \$ (3,142) | \$ 8,410     |              |

## Three months ended June 30, 2014

| Results of Operations                                 | Non-   |                           |                           |              |       | Consolidated |    |     |
|---|--------|---------------------------|---------------------------|--------------|-------|--------------|----|-----|
|   | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |       |              |    |     |
| Net sales   | \$     | \$                        | \$                        | 1,797        | \$    | \$ 1,797     |    |     |
| Cost of goods sold                                    |        |                           |                           | (1,439)      |       | (1,439)      |    |     |
| Gross profit  |        |                           |                           | 358          |       | 358          |    |     |
| Selling and administrative expense                    |        |                           |                           | (131)        |       | (131)        |    |     |
| Research, development and engineering expense         |        |                           |                           | (17)         |       | (17)         |    |     |
| Net intercompany interest                             | 5      |                           |                           | (5)          |       |              |    |     |
| Interest expense, net                                 | (5)    |                           |                           | (49)         |       | (54)         |    |     |
| Equity earnings from subsidiaries                     | 114    | 114                       |                           |              | (228) |              |    |     |
| Other equity earnings                                 |        |                           |                           | 19           |       | 19           |    |     |
| Other expense, net                                    |        |                           |                           | 4            |       | 4            |    |     |
| Earnings before income taxes                          | 114    | 114                       |                           | 179          | (228) | 179          |    |     |
| Provision for income taxes                            |        |                           |                           | (39)         |       | (39)         |    |     |
| Earnings from continuing operations                   | 114    | 114                       |                           | 140          | (228) | 140          |    |     |
| Loss from discontinued operations                     |        |                           |                           | (20)         |       | (20)         |    |     |
| Net earnings  | 114    | 114                       |                           | 120          | (228) | 120          |    |     |
| Net earnings attributable to noncontrolling interests |        |                           |                           | (6)          |       | (6)          |    |     |
| Net earnings attributable to the Company              | \$     | 114                       | \$                        | 114          | \$    | (228)        | \$ | 114 |

## Three months ended June 30, 2014

| Comprehensive Income  | Non-   |                           |                           |              |    | Consolidated |    |       |    |     |
|---|--------|---------------------------|---------------------------|--------------|----|--------------|----|-------|----|-----|
|   | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |    |              |    |       |    |     |
| Net earnings  | \$     | 114                       | \$                        | 114          | \$ | 120          | \$ | (228) | \$ | 120 |
| Other comprehensive income, net                               |        | 60                        |                           | 60           |    | 48           |    | (106) |    | 62  |
| Total comprehensive income                                    |        | 174                       |                           | 174          |    | 168          |    | (334) |    | 182 |
| Comprehensive income attributable to noncontrolling interests |        |                           |                           |              |    | (8)          |    |       |    | (8) |
| Comprehensive income attributable to the Company              | \$     | 174                       | \$                        | 174          | \$ | 160          | \$ | (334) | \$ | 174 |

Three months ended June 30, 2013

| Results of Operations                                 | Non-   |                           |                           |              |       | Consolidated |    |     |
|---|--------|---------------------------|---------------------------|--------------|-------|--------------|----|-----|
|   | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |       |              |    |     |
| Net sales   | \$     | \$                        | \$                        | 1,781        | \$    | \$ 1,781     |    |     |
| Cost of goods sold                                    |        |                           |                           | (1,412)      |       | (1,412)      |    |     |
| Gross profit  |        |                           |                           | 369          |       | 369          |    |     |
| Selling and administrative expense                    |        |                           |                           | (129)        |       | (129)        |    |     |
| Research, development and engineering expense         |        |                           |                           | (15)         |       | (15)         |    |     |
| Net intercompany interest                             | 5      |                           |                           | (5)          |       |              |    |     |
| Interest expense, net                                 | (5)    |                           |                           | (51)         |       | (56)         |    |     |
| Equity earnings from subsidiaries                     | 132    | 132                       |                           |              | (264) |              |    |     |
| Other equity earnings                                 |        |                           |                           | 16           |       | 16           |    |     |
| Other expense, net                                    |        |                           |                           | (8)          |       | (8)          |    |     |
| Earnings before income taxes                          | 132    | 132                       |                           | 177          | (264) | 177          |    |     |
| Provision for income taxes                            |        |                           |                           | (37)         |       | (37)         |    |     |
| Earnings from continuing operations                   | 132    | 132                       |                           | 140          | (264) | 140          |    |     |
| Loss from discontinued operations                     |        |                           |                           | (3)          |       | (3)          |    |     |
| Net earnings  | 132    | 132                       |                           | 137          | (264) | 137          |    |     |
| Net earnings attributable to noncontrolling interests |        |                           |                           | (5)          |       | (5)          |    |     |
| Net earnings attributable to the Company              | \$     | 132                       | \$                        | 132          | \$    | (264)        | \$ | 132 |

Three months ended June 30, 2013

| Comprehensive Income  | Non-   |                           |                           |              |    | Consolidated |    |       |    |      |
|---|--------|---------------------------|---------------------------|--------------|----|--------------|----|-------|----|------|
|   | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |    |              |    |       |    |      |
| Net earnings  | \$     | 132                       | \$                        | 132          | \$ | 137          | \$ | (264) | \$ | 137  |
| Other comprehensive income, net                               |        | (74)                      |                           | (74)         |    | (100)        |    | 172   |    | (76) |
| Total comprehensive income                                    |        | 58                        |                           | 58           |    | 37           |    | (92)  |    | 61   |
| Comprehensive income attributable to noncontrolling interests |        |                           |                           |              |    | (3)          |    |       |    | (3)  |
| Comprehensive income attributable to the Company              | \$     | 58                        | \$                        | 58           | \$ | 34           | \$ | (92)  | \$ | 58   |

## Six months ended June 30, 2014

| Results of Operations                                 | Non-   |                           |                           |              |       | Consolidated |
|---|--------|---------------------------|---------------------------|--------------|-------|--------------|
|   | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |       |              |
| Net sales   | \$     | \$                        | \$                        | 3,436        | \$    | \$ 3,436     |
| Cost of goods sold                                    |        |                           |                           | (2,757)      |       | (2,757)      |
| Gross profit  |        |                           |                           | 679          |       | 679          |
| Selling and administrative expense                    |        |                           |                           | (264)        |       | (264)        |
| Research, development and engineering expense         |        |                           |                           | (32)         |       | (32)         |
| Net intercompany interest                             | 10     |                           |                           | (10)         |       |              |
| Interest expense, net                                 | (10)   |                           |                           | (98)         |       | (108)        |
| Equity earnings from subsidiaries                     | 215    | 215                       |                           |              | (430) |              |
| Other equity earnings                                 |        |                           |                           | 35           |       | 35           |
| Other expense, net                                    |        |                           |                           | 3            |       | 3            |
| Earnings before income taxes                          | 215    | 215                       |                           | 313          | (430) | 313          |
| Provision for income taxes                            |        |                           |                           | (66)         |       | (66)         |
| Earnings from continuing operations                   | 215    | 215                       |                           | 247          | (430) | 247          |
| Loss from discontinued operations                     |        |                           |                           | (21)         |       | (21)         |
| Net earnings  | 215    | 215                       |                           | 226          | (430) | 226          |
| Net earnings attributable to noncontrolling interests |        |                           |                           | (11)         |       | (11)         |
| Net earnings attributable to the Company              | \$ 215 | \$ 215                    | \$ 215                    | \$ (430)     | \$    | 215          |

## Six months ended June 30, 2014

| Comprehensive Income  | Non-   |                           |                           |              |    | Consolidated |
|---|--------|---------------------------|---------------------------|--------------|----|--------------|
|   | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |    |              |
| Net earnings  | \$ 215 | \$ 215                    | \$ 226                    | \$ (430)     | \$ | 226          |
| Other comprehensive income, net                               | 119    | 119                       | 85                        | (205)        |    | 118          |
| Total comprehensive income                                    | 334    | 334                       | 311                       | (635)        |    | 344          |
| Comprehensive income attributable to noncontrolling interests |        |                           |                           | (10)         |    | (10)         |
| Comprehensive income attributable to the Company              | \$ 334 | \$ 334                    | \$ 301                    | \$ (635)     | \$ | 334          |

## Six months ended June 30, 2013

| Results of Operations                                 | Non-   |                           |                           |              |        | Consolidated |
|---|--------|---------------------------|---------------------------|--------------|--------|--------------|
|   | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |        |              |
| Net sales   | \$     | \$                        | \$                        | 3,422        | \$     | \$ 3,422     |
| Cost of goods sold                                    |        |                           |                           | (2,734)      |        | (2,734)      |
| Gross profit  |        |                           |                           | 688          |        | 688          |
| Selling and administrative expense                    |        |                           |                           | (258)        |        | (258)        |
| Research, development and engineering expense         |        |                           |                           | (30)         |        | (30)         |
| Net intercompany interest                             | 10     |                           |                           | (10)         |        |              |
| Interest expense, net                                 | (10)   |                           |                           | (114)        |        | (124)        |
| Equity earnings from subsidiaries                     | 201    | 201                       |                           |              | (402)  |              |
| Other equity earnings                                 |        |                           |                           | 33           |        | 33           |
| Other expense, net                                    |        |                           |                           | (15)         |        | (15)         |
| Earnings before income taxes                          | 201    | 201                       |                           | 294          | (402)  | 294          |
| Provision for income taxes                            |        |                           |                           | (70)         |        | (70)         |
| Earnings from continuing operations                   | 201    | 201                       |                           | 224          | (402)  | 224          |
| Loss from discontinued operations                     |        |                           |                           | (13)         |        | (13)         |
| Net earnings  | 201    | 201                       |                           | 211          | (402)  | 211          |
| Net earnings attributable to noncontrolling interests |        |                           |                           | (10)         |        | (10)         |
| Net earnings attributable to the Company              | \$ 201 | \$ 201                    | \$ 201                    | \$ (402)     | \$ 201 |              |

## Six months ended June 30, 2013

| Comprehensive Income  | Non-   |                           |                           |              |        | Consolidated |
|---|--------|---------------------------|---------------------------|--------------|--------|--------------|
|   | Parent | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations |        |              |
| Net earnings  | \$ 201 | \$ 201                    | \$ 211                    | \$ (402)     | \$ 211 |              |
| Other comprehensive income, net                               | (53)   | (53)                      | (112)                     | 159          | (59)   |              |
| Total comprehensive income                                    | 148    | 148                       | 99                        | (243)        | 152    |              |
| Comprehensive income attributable to noncontrolling interests |        |                           |                           | (4)          | (4)    |              |
| Comprehensive income attributable to the Company              | \$ 148 | \$ 148                    | \$ 95                     | \$ (243)     | \$ 148 |              |

Six months ended June 30, 2014

| Cash Flows  | Parent  | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|---------|---------------------------|-----------------------------------|--------------|--------------|
| Cash provided by (utilized in) operating activities | \$ (42) | \$                        | \$ 9                              | \$           | \$ (33)      |
| Cash utilized in investing activities               |         |                           | (178)                             |              | (178)        |
| Cash provided by (utilized in) financing activities | 42      |                           | (16)                              |              | 26           |
| Effect of exchange rate change on cash              |         |                           | (4)                               |              | (4)          |
| Net change in cash                                  |         |                           | (189)                             |              | (189)        |
| Cash at beginning of period                         |         |                           | 383                               |              | 383          |
| Cash at end of period                               | \$      | \$                        | \$ 194                            | \$           | \$ 194       |

Six months ended June 30, 2013

| Cash Flows  | Parent  | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|---------|---------------------------|-----------------------------------|--------------|--------------|
| Cash provided by (utilized in) operating activities | \$ (49) | \$                        | \$ 66                             | \$           | \$ 17        |
| Cash utilized in investing activities               |         |                           | (162)                             |              | (162)        |
| Cash provided by (utilized in) financing activities | 49      |                           | (78)                              |              | (29)         |
| Effect of exchange rate change on cash              |         |                           | (8)                               |              | (8)          |
| Net change in cash                                  |         |                           | (182)                             |              | (182)        |
| Cash at beginning of period                         |         |                           | 431                               |              | 431          |
| Cash at end of period                               | \$      | \$                        | \$ 249                            | \$           | \$ 249       |

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

The Company's measure of profit for its reportable segments is segment operating profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations as well as certain retained corporate costs. The segment data presented below is prepared in accordance with general accounting principles for segment reporting. The line titled "reportable segment totals", however, is a non-GAAP measure when presented outside of the financial statement footnotes. Management has included reportable segment totals below to facilitate the discussion and analysis of financial condition and results of operations. The Company's management uses segment operating profit, in combination with net sales and selected cash flow information, to evaluate performance and to allocate resources.

Financial information for the three and six months ended June 30, 2014 and 2013 regarding the Company's reportable segments is as follows (dollars in millions):

|                           | Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|---------------------------|--------------------------------|----------|------------------------------|----------|
|                           | 2014                           | 2013     | 2014                         | 2013     |
| Net Sales:                |                                |          |                              |          |
| Europe                    | \$ 790                         | \$ 746   | \$ 1,496                     | \$ 1,396 |
| North America             | 541                            | 527      | 1,026                        | 996      |
| South America             | 274                            | 269      | 513                          | 538      |
| Asia Pacific              | 184                            | 231      | 387                          | 478      |
| Reportable segment totals | 1,789                          | 1,773    | 3,422                        | 3,408    |
| Other                     | 8                              | 8        | 14                           | 14       |
| Net Sales                 | \$ 1,797                       | \$ 1,781 | \$ 3,436                     | \$ 3,422 |



|   | Three months ended<br>June 30, |        | Six months ended<br>June 30, |        |
|---|--------------------------------|--------|------------------------------|--------|
|   | 2014                           | 2013   | 2014                         | 2013   |
| <b>Segment operating profit:</b>                        |                                |        |                              |        |
| Europe  | \$ 109                         | \$ 111 | \$ 196                       | \$ 170 |
| North America   | 83                             | 93     | 148                          | 167    |
| South America   | 53                             | 37     | 94                           | 90     |
| Asia Pacific  | 17                             | 26     | 42                           | 66     |
| Reportable segment totals                               | 262                            | 267    | 480                          | 493    |
| <b>Items excluded from segment operating profit:</b>    |                                |        |                              |        |
| Retained corporate costs and other                      | (29)                           | (34)   | (59)                         | (65)   |
| Restructuring, asset impairment and related charges     |                                |        |                              | (10)   |
| Interest expense, net                                   | (54)                           | (56)   | (108)                        | (124)  |
| Earnings from continuing operations before income taxes | 179                            | 177    | 313                          | 294    |
| Provision for income taxes                              | (39)                           | (37)   | (66)                         | (70)   |
| Earnings from continuing operations                     | 140                            | 140    | 247                          | 224    |
| Loss from discontinued operations                       | (20)                           | (3)    | (21)                         | (13)   |
| Net earnings  | 120                            | 137    | 226                          | 211    |
| Net earnings attributable to noncontrolling interests   | (6)                            | (5)    | (11)                         | (10)   |
| Net earnings attributable to the Company                | \$ 114                         | \$ 132 | \$ 215                       | \$ 201 |
| <b>Amounts attributable to the Company:</b>             |                                |        |                              |        |
| Earnings from continuing operations                     | \$ 134                         | \$ 135 | \$ 236                       | \$ 214 |
| Loss from discontinued operations                       | (20)                           | (3)    | (21)                         | (13)   |
| Net earnings  | \$ 114                         | \$ 132 | \$ 215                       | \$ 201 |

Note: All amounts excluded from reportable segment totals are discussed in the following applicable sections.

#### **Executive Overview** *Quarters ended June 30, 2014 and 2013*

##### *Second Quarter 2014 Highlights*

- Net sales higher due to higher selling prices and favorable foreign currency exchange rates, partially offset by a 1% decline in glass container shipments.
- Segment operating profit lower due to higher operating costs, partially offset by higher selling prices.

Net sales were \$16 million higher than the prior year due to higher selling prices, primarily in the North and South American regions, as well as favorable foreign currency exchange rates. This benefit to net sales was partially offset by a 1% decline in glass container shipments, driven by lower sales volumes in Asia Pacific.

Segment operating profit for reportable segments was \$5 million lower than the prior year. Lower production volumes in Europe, higher supply chain costs in North America and higher cost inflation in most of the regions increased operating costs in the quarter. These higher costs were partially offset by improved prices and higher shipment levels in Europe, North America and South America.

Net earnings from continuing operations attributable to the Company for the second quarter of 2014 was \$134 million, or \$0.80 per share (diluted), compared with \$135 million, or \$0.81 per share (diluted), for the second quarter of 2013. There were no items that management considered not representative of ongoing operations in the second quarter of 2014 or 2013.

## Results of Operations Second Quarter of 2014 compared with Second Quarter of 2013

### Net Sales

The Company's net sales in the second quarter of 2014 were \$1,797 million compared with \$1,781 million for the second quarter of 2013, an increase of \$16 million, or 1%. The increase in net sales was due to higher selling prices and favorable foreign currency exchange rates. Glass container shipments, in tonnes, were down 1% in the second quarter of 2014 compared to the second quarter of 2013, driven by lower sales volumes in Asia Pacific. However, Europe, North America and South America each had higher shipment levels in the second quarter of 2014 compared with the second quarter of 2013.

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

|  |    |      |       |
|--|----|------|-------|
| Net sales - 2013                           |    | \$   | 1,773 |
| Price                                      | \$ | 25   |       |
| Sales volume                               |    | (24) |       |
| Effects of changing foreign currency rates |    | 15   |       |
| Total effect on net sales                  |    |      | 16    |
| Net sales - 2014                           |    | \$   | 1,789 |

*Europe:* Net sales in Europe in the second quarter of 2014 were \$790 million compared with \$746 million for the second quarter of 2013, an increase of \$44 million, or 6%. The favorable effect of foreign currency exchange rate changes increased net sales by \$38 million in the current year as the Euro strengthened in relation to the U.S. dollar. Glass container shipments in the second quarter of 2014 were up 2% compared to the second quarter of 2013, particularly in the beer, wine and food categories. The higher sales volume increased net sales by \$16 million in the second quarter of 2014. Partially offsetting these increases in net sales was a \$10 million impact from lower selling prices.

*North America:* Net sales in North America in the second quarter of 2014 were \$541 million compared with \$527 million for the second quarter of 2013, an increase of \$14 million, or 3%. Higher selling prices increased net sales by \$17 million in the second quarter of 2014 due, in part, to the Company's contractual pass through provisions, as well as from passing through the freight costs for a large customer. Glass container shipments increased by 1% in the quarter compared to the prior year. However, net sales did not change as these higher volumes were offset by an unfavorable sales mix as shipments in the beer category increased while shipments in the wine and spirits categories were lower. Unfavorable foreign currency exchange rates decreased net sales by \$3 million, as the Canadian dollar weakened in relation to the U.S. dollar.

*South America:* Net sales in South America in the second quarter of 2014 were \$274 million compared with \$269 million for the second quarter of 2013, an increase of \$5 million, or 2%. Higher selling prices benefited net sales by \$15 million in the current quarter. Net sales also increased by \$5 million in the current quarter driven by an 8% increase in glass container shipments, partially offset by a change in sales mix.

The unfavorable effects of foreign currency exchange rate

changes decreased net sales \$15 million in the second quarter of 2014 compared to 2013, principally due to a weaker Brazilian real in relation to the U.S. dollar.

*Asia Pacific:* Net sales in Asia Pacific in the second quarter of 2014 were \$184 million compared with \$231 million for the second quarter of 2013, a decrease of \$47 million, or 20%. The decrease in net sales was primarily due to lower shipments, which resulted in \$45 million of lower sales in the second quarter of 2014. Glass container shipments were down 27% compared to the prior year primarily due to planned plant closures in China. Sales volumes were also unfavorably impacted by lower shipments in Australia due to weaker demand trends in the beer and wine categories. The unfavorable effects of foreign currency exchange rate changes during the second quarter of 2014, primarily due to the weakening of the Australian dollar in relation to the U.S. dollar, also decreased net sales by \$5 million. Selling prices were \$3 million higher in the current quarter.

#### *Segment Operating Profit*

Operating profit of the reportable 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. Unallocated corporate expenses and certain other expenses not directly related to the reportable segments' operations are included in Retained corporate costs and other. For further information, see Segment Information included in Note 1 to the Condensed Consolidated Financial Statements.

Segment operating profit of reportable segments in the second quarter of 2014 was \$262 million compared to \$267 million for the second quarter of 2013, a decrease of \$5 million. The decrease in segment operating profit was primarily due to higher operating costs, partially offset by higher selling prices. Operating costs were higher in the current quarter due to cost inflation, as well as due to the impact of lower production volumes in Europe and higher supply chain costs in North America. Partially offsetting these elevated costs was a higher segment profit contribution from an increase in glass container shipments in regions with more favorable margins, primarily Europe and South America. The favorable effects of foreign currency exchange rate changes during the second quarter of 2014 increased segment operating profit by \$6 million.

The change in segment operating profit of reportable segments can be summarized as follows (dollars in millions):

|  |    |      |     |
|--|----|------|-----|
| Segment operating profit - 2013              |    | \$   | 267 |
| Price  | \$ | 25   |     |
| Sales volume                                 |    | 3    |     |
| Operating costs                              |    | (39) |     |
| Effects of changing foreign currency rates   |    | 6    |     |
| Total net effect on segment operating profit |    |      | (5) |
| Segment operating profit - 2014              |    | \$   | 262 |

*Europe:* Segment operating profit in Europe in the second quarter of 2014 was \$109 million compared with \$111 million in the second quarter of 2013, a decrease of \$2 million, or 2%. Selling prices were down \$10 million in the second quarter due, in part, to cost deflation in the region. Higher operating expenses, driven by lower production volume as a result of more furnace rebuild



activity, engineering work associated with the region's asset optimization program and net of structural cost reductions, had a net \$1 million unfavorable impact on segment operating profit during the second quarter of 2014. The increase in sales volume discussed above increased segment operating profit by \$4 million. The favorable effects of foreign currency exchange rates increased segment operating profit by \$5 million.

*North America:* Segment operating profit in North America in the second quarter of 2014 was \$83 million compared with \$93 million in the second quarter of 2013, a decrease of \$10 million, or 11%. The decrease in segment operating profit was due to \$27 million of higher operating costs in the current quarter, which was driven by higher inflation and supply chain costs. Elevated inventory levels in the region contributed to the higher supply chain costs. Higher selling prices of \$17 million partially offset the higher operating costs in the quarter.

*South America:* Segment operating profit in South America in the second quarter of 2014 was \$53 million compared with \$37 million in the second quarter of 2013, an increase of \$16 million, or 43%. Higher selling prices increased segment operating profit in the second quarter of 2014 by \$15 million. The increase in sales volume discussed above increased segment operating profit by \$4 million. In addition, several non-strategic asset sales in the second quarter of 2014 also benefitted segment operating profit by \$6 million. Partially offsetting these benefits was \$11 million in higher operating costs, primarily driven by cost inflation. The favorable effects of foreign currency exchange rate changes increased segment operating profit by \$2 million in the current quarter.

*Asia Pacific:* Segment operating profit in Asia Pacific in the second quarter of 2014 was \$17 million compared with \$26 million in the second quarter of 2013, a decrease of \$9 million, or 35%. Operating costs increased by \$6 million in the quarter and were driven by higher cost inflation. The decrease in sales volume discussed above decreased segment operating profit by \$5 million. Partially offsetting these decreases to operating profit was a \$3 million increase in selling prices. The unfavorable effects of foreign currency exchange rate changes decreased segment operating profit by \$1 million in the current quarter.

#### *Interest Expense, net*

Net interest expense for the second quarter of 2014 was \$54 million compared with \$56 million for the second quarter of 2013, reflecting lower debt levels.

#### *Earnings from Continuing Operations Attributable to the Company*

For the second quarter of 2014, the Company recorded earnings from continuing operations attributable to the Company of \$134 million, or \$0.80 per share (diluted), compared to \$135 million, or \$0.81 per share (diluted), in the second quarter of 2013. There were no items that management considered not representative of ongoing operations in the second quarter of 2014 or 2013.

**Executive Overview** Six Months ended June 30, 2014 and 2013

*2014 Highlights*

- Net sales driven by higher selling prices, partially offset by the unfavorable effects of changes in exchange rates.
- Segment operating profit lower due to higher operating costs, partially offset by higher selling prices and higher shipments.

Net sales were \$14 million higher than the prior year primarily due to higher selling prices. The effect of changes in foreign currency exchange rates had an unfavorable impact on net sales.

Segment operating profit for reportable segments was \$13 million lower than the prior year. The decrease was mainly attributable to higher operating costs, driven by higher cost inflation in most of the regions and higher supply chain costs in North America, partially offset by higher selling prices and sales volume.

Net interest expense for the first six months of 2014 decreased \$16 million compared to the first six months of 2013. The decrease was due to \$14 million of note repurchase premiums and the write-off of finance fees related to debt that was repaid during the first six months of 2013 prior to its maturity that did not reoccur in the first six months of 2014.

Net earnings from continuing operations attributable to the Company for the first six months of 2014 was \$236 million, or \$1.42 per share (diluted), compared with \$214 million, or \$1.29 per share (diluted), for the first six months of 2013. Earnings in 2013 included items that management considered not representative of ongoing operations. These items decreased net earnings attributable to the Company in 2013 by \$20 million, or \$0.12 per share. There were no items that management considered not representative of ongoing operations in the first six months of 2014.

**Results of Operations** First six months of 2014 compared with first six months of 2013

*Net Sales*

The Company's net sales in the first six months of 2014 were \$3,436 million compared with \$3,422 million for the first six months of 2013, an increase of \$14 million. The benefit of higher selling prices was partially offset by unfavorable foreign currency exchange rate changes, primarily due to a weaker Brazilian real in relation to the U.S. dollar. Glass container shipments, in tonnes, were slightly higher in 2014 compared to 2013, driven by higher shipments in Europe, North America and South America partially offset by lower volumes in Asia Pacific. Despite these higher shipment levels, net sales decreased by \$5 million in the first six months of 2014 due to an unfavorable sales mix.



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

|  |    |      |       |
|--|----|------|-------|
| Net sales - 2013                           |    | \$   | 3,408 |
| Price                                      | \$ | 39   |       |
| Sales volume                               |    | (5)  |       |
| Effects of changing foreign currency rates |    | (20) |       |
| Total effect on net sales                  |    |      | 14    |
| Net sales - 2014                           |    | \$   | 3,422 |

*Europe:* Net sales in Europe in the first six months of 2014 were \$1,496 million compared with \$1,396 million for the first six months of 2013, an increase of \$100 million, or 7%. Glass container shipments in 2014 were up 4% compared to the prior year, particularly in the beer and wine categories. The higher sales volume, which increased net sales by \$52 million, was mainly due to unseasonably warm weather conditions in the first quarter and the carryover benefits of the Company's wine share recovery efforts from the prior year. Net sales in Europe also increased by \$65 million due to the favorable effects of foreign currency exchange rate changes, as the Euro strengthened in relation to the U.S. dollar. Partially offsetting these increases in net sales was a \$17 million impact from lower selling prices.

*North America:* Net sales in North America in the first six months of 2014 were \$1,026 million compared with \$996 million for the first six months of 2013, an increase of \$30 million, or 3%. The increase in net sales was partially due to higher sales volume, which resulted in \$10 million of higher sales in the first six months of 2014. Glass container shipments were up 2% in the current year compared to the prior year, driven by higher beer and non-alcoholic bottle sales. Higher selling prices of \$27 million also increased net sales in the first six months of 2014 due, in part, to the Company's contractual pass through provisions, as well as from passing through the freight costs for a large customer. Unfavorable foreign currency exchange rates decreased net sales by \$7 million, as the Canadian dollar weakened in relation to the U.S. dollar.

*South America:* Net sales in South America in the first six months of 2014 were \$513 million compared with \$538 million for the first six months of 2013, a decrease of \$25 million, or 5%. The unfavorable effects of foreign currency exchange rate changes decreased net sales \$52 million in 2014 compared to 2013, principally due to a weaker Brazilian real in relation to the U.S. dollar. Improved pricing in the current year benefited net sales by \$27 million. Glass container shipments were up nearly 4% for the first six months of 2014, but a change in sales mix resulted in no net impact to net sales.

*Asia Pacific:* Net sales in Asia Pacific in the first six months of 2014 were \$387 million compared with \$478 million for the first six months of 2013, a decrease of \$91 million, or 19%. The decrease in net sales was primarily due to lower sales volume, which resulted in \$67 million of lower sales in the first six months of 2014. Glass container shipments were down 18% compared to the prior year, largely due to the planned plant closures in China, as well as lower shipments in Australia due to weaker demand trends in the beer and wine categories. The unfavorable effects of foreign currency exchange rate changes decreased net sales \$26 million in 2014 compared to 2013, primarily due to the weakening of the Australian dollar in relation to the U.S. dollar. Higher prices increased net sales by \$2 million in the current year.

#### *Segment Operating Profit*

Operating profit of the reportable 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. Unallocated corporate expenses and certain other expenses not directly related to the

reportable segments operations are included in Retained corporate costs and other. For further information, see Segment Information included in Note 1 to the Condensed Consolidated Financial Statements.

Segment operating profit of reportable segments in the first six months of 2014 was \$480 million compared to \$493 million for the first six months of 2013, a decrease of \$13 million, or 3%. The decrease in segment operating profit was primarily due to higher operating costs, partially offset by higher sales volume and higher selling prices. Operating costs were higher in the current year due to cost inflation and higher supply chain costs in North America due to higher inventory levels.

The change in segment operating profit of reportable segments can be summarized as follows (dollars in millions):

|  |    |      |      |
|--|----|------|------|
| Segment operating profit - 2013              |    | \$   | 493  |
| Price  | \$ | 39   |      |
| Sales volume                                 |    | 11   |      |
| Operating costs                              |    | (66) |      |
| Effects of changing foreign currency rates   |    | 3    |      |
| Total net effect on segment operating profit |    |      | (13) |
| Segment operating profit - 2014              |    | \$   | 480  |

*Europe:* Segment operating profit in Europe in the first six months of 2014 was \$196 million compared with \$170 million in the first six months of 2013, an increase of \$26 million, or 15%. Lower operating expenses, driven by cost deflation and structural cost reductions, had a \$22 million positive impact on segment operating profit in the first six months of 2014. The increase in sales volume discussed above increased segment operating profit by \$14 million. The favorable effects of foreign currency exchange rates increased segment operating profit by \$7 million. Partially offsetting these benefits were lower selling prices, which were down \$17 million in the current year due, in part, to cost deflation in the region.

*North America:* Segment operating profit in North America in the first six months of 2014 was \$148 million compared with \$167 million in the first six months of 2013, a decrease of \$19 million, or 11%. The decrease in segment operating profit was primarily due to higher operating costs of \$48 million in the current year, which were driven by higher energy and higher supply chain costs due to elevated inventory levels and extreme weather conditions in the first quarter. Higher selling prices partially offset these higher costs and increased segment operating profit by \$27 million in the current year. The increase in sales volume discussed above also increased segment profit by \$3 million while the unfavorable effects of foreign exchange rates decreased segment profit by \$1 million.

*South America:* Segment operating profit in South America in the first six months of 2014 was \$94 million compared with \$90 million in the first six months of 2013, an increase of \$4 million, or 4%. Higher selling prices increased segment operating profit in the first six months of 2014 by \$27 million. The increase in sales volume discussed above increased segment operating profit by \$4 million. Several non-strategic asset sales also benefited segment operating profit by \$6 million in the current year. Partially offsetting these benefits was \$31 million in higher operating costs,

primarily driven by cost inflation. The unfavorable effects of foreign currency exchange rate changes decreased segment operating profit by \$2 million in the current year.

*Asia Pacific:* Segment operating profit in Asia Pacific in the first six months of 2014 was \$42 million compared with \$66 million in the first six months of 2013, a decrease of \$24 million, or 36%. Operating costs increased by \$15 million in the current year and were driven by higher cost inflation. The decrease in sales volume discussed above decreased segment operating profit by \$10 million. The unfavorable effects of foreign currency exchange rates decreased segment profit by \$1 million. Higher selling prices increased segment profit by \$2 million in the current year.

#### *Interest Expense, net*

Net interest expense for the first six months of 2014 was \$108 million compared with \$124 million for the first six months of 2013. Interest expense for 2013 included \$11 million for note repurchase premiums and the write-off of finance fees related to the discharge of the 300 million senior notes due 2017 and \$3 million for loss on debt extinguishment and the write-off of finance fees related to the repurchase of a portion of the 2015 Exchangeable Notes. Exclusive of these items, net interest expense was lower in the first six months of 2014 compared with the same period in 2013 due to lower debt levels.

#### *Provision for Income Taxes*

The Company's effective tax rate from continuing operations for the six months ended June 30, 2014 was 21.1% compared with 23.8% for the six months ended June 30, 2013. The effective tax rate for the first six months of 2014 was lower than the first six months of 2013 due to a benefit of \$13 million recorded in 2014 related to reductions to several of the Company's uncertain tax positions due to the outcome of tax examinations.

The Company expects that the full year effective tax rate for 2014 will be comparable with the 21.9% rate recorded in 2013 (excluding the tax on items that management considers not representative of ongoing operations).

#### *Earnings from Continuing Operations Attributable to the Company*

For the first six months of 2014, the Company recorded earnings from continuing operations attributable to the Company of \$236 million, or \$1.42 per share (diluted), compared to \$214 million, or \$1.29 per share (diluted), in the first six months of 2013. Earnings in 2013 included items that management considered not representative of ongoing operations. These items decreased earnings from continuing operations attributable to the Company in 2013 by \$20 million, or \$0.12 per share. There were no items that management considered not representative of ongoing operations in the first six months of 2014.

#### **Items Excluded from Reportable Segment Totals**

Retained Corporate Costs and Other

Retained corporate costs and other for the second quarter of 2014 was \$29 million compared with \$34 million for the second quarter of 2013, and \$59 million for the first six months of 2014 compared with \$65 million for the first six months of 2013. Retained corporate costs and other for the three and six months ended June 30, 2014 reflects lower pension expense.

### Restructuring

During the six months ended June 30, 2013, the Company recorded restructuring, asset impairment and related charges of \$10 million, primarily related to the European Asset Optimization program. See Note 5 to the Condensed Consolidated Financial Statements for additional information.

### Discontinued Operations

The loss from discontinued operations of \$21 million for the six months ended June 30, 2014 included a settlement of a dispute with the purchaser of a previously disposed business, as well as ongoing costs related to the Venezuela expropriation. The loss from discontinued operations of \$13 million for the six months ended June 30, 2013 included special termination benefits related to a previously disposed business, as well as ongoing costs related to the Venezuela expropriation.

### **Capital Resources and Liquidity**

As of June 30, 2014, the Company had cash and total debt of \$194 million and \$3.6 billion, respectively, compared to \$249 million and \$3.8 billion, respectively, as of June 30, 2013. A significant portion of the cash was held in mature, liquid markets where the Company has operations, such as the U.S., Europe and Australia, and is readily available to fund global liquidity requirements. The amount of cash held in non-U.S. locations as of June 30, 2014 was \$188 million.

### *Current and Long-Term Debt*

On May 19, 2011, the Company's subsidiary borrowers entered into the Secured Credit Agreement (the Agreement). At June 30, 2014, the Agreement included a \$900 million revolving credit facility, a \$405 million term loan, a \$81 million Canadian dollar term loan, and a \$85 million term loan, each of which has a final maturity date of May 19, 2016. At June 30, 2014, the Company's subsidiary borrowers had unused credit of \$727 million available under the Agreement.

The weighted average interest rate on borrowings outstanding under the Agreement at June 30, 2014 was 2.03%.

The Company repurchased \$15 million and \$46 million of the 2015 Exchangeable Notes during the first six months of 2014 and 2013, respectively.

During March 2013, the Company issued senior notes with a face value of \$330 million due March 31, 2021. The notes bear interest at 4.875% and are guaranteed by substantially all of the Company's domestic subsidiaries. The net proceeds, after deducting debt issuance costs, totaled

approximately \$418 million.

During March 2013, the Company discharged, in accordance with the indenture, all 300 million of the 6.875% senior notes due 2017.

The Company assesses its capital raising and refinancing needs on an ongoing basis and may enter into additional credit facilities and seek to issue equity and/or debt securities in the domestic and international capital markets if market conditions are favorable. Also, depending on market conditions, the Company may elect to repurchase portions of its debt securities in the open market.

The Company has a 215 million European accounts receivable securitization program, which extends through September 2016, subject to periodic renewal of backup credit lines. Information related to the Company's accounts receivable securitization program is as follows:

|  | June 30,<br>2014 |    | December 31,<br>2013 |    | June 30,<br>2013 |
|--|------------------|----|----------------------|----|------------------|
| Balance (included in short-term loans) | \$ 294           | \$ | 276                  | \$ | 290              |
| Weighted average interest rate         | 1.44%            |    | 1.41%                |    | 1.20%            |

*Cash Flows*

Free cash flow was \$(227) million for the first six months of 2014 compared to \$(142) million for the first six months of 2013. The Company defines free cash flow as cash provided by continuing operating activities less additions to property, plant and equipment from continuing operations. Free cash flow does not conform to U.S. GAAP and should not be construed as an alternative to the cash flow measures reported in accordance with U.S. GAAP. The Company uses free cash flow for internal reporting, forecasting and budgeting and believes this information allows the board of directors, management, investors and analysts to better understand the Company's financial performance. Free cash flow for the six months ended June 30, 2014 and 2013 is calculated as follows:

|  | 2014     |    | 2013  |
|--|----------|----|-------|
| Cash provided by (utilized in) continuing operating activities | \$ (31)  | \$ | 22    |
| Additions to property, plant and equipment                     | (196)    |    | (164) |
| Free cash flow   | \$ (227) | \$ | (142) |

*Operating activities:* Cash utilized in continuing operating activities was \$31 million for the six months ended June 30, 2014, compared with cash provided by continuing operating activities of \$22 million for the six months ended June 30, 2013. The decrease in cash provided by continuing operating activities was partially due to an increase in working capital of \$354 million in 2014 compared to \$351 million in 2013. The larger increase in working capital was, in part, due to an increase in inventories in the Company's North American region in the first six months of 2014 caused by supply chain challenges. The decrease in cash provided by continuing operating activities was also due to an increase in other net items of \$82 million in 2014 compared to an increase of \$15 million in 2013, primarily due to cash paid for returnable packaging and deferred customer contracts. These higher payments were partially offset by higher earnings, a decrease in cash paid for restructuring activities of \$9 million and a decrease in asbestos-related payments of \$7 million.

*Investing activities:* Cash utilized in investing activities was \$178 million for the six months ended June 30, 2014 compared to \$162 million for the six months ended June 30, 2013. Capital spending for property, plant and equipment was \$196 million during the first six months of 2014 and \$164 million during the same period in the prior year. The increase in capital spending in 2014 was primarily due to higher spending in Europe as part of the region's ongoing asset optimization



program. Investing activities in 2014 also included \$18 million of other net activity that was primarily related to proceeds from the repayment of a loan from one of the Company's noncontrolling partners in South America.

*Financing activities:* Cash provided by financing activities was \$26 million for the six months ended June 30, 2014 compared to cash utilized in financing activities of \$29 million for the six months ended June 30, 2013. Financing activities in 2014 included a net increase of \$71 million to debt primarily related to seasonal working capital requirements. The Company also paid \$35 million in distributions to noncontrolling interests in the first six months of 2014. Financing activities in 2013 included repayments of long-term debt of \$724 million, primarily related to the discharge of the \$300 million senior notes due 2017 and the repurchase of \$46 million of the 2015 Exchangeable Notes, partially offset by additions to long-term debt of \$674 million, primarily related to the issuance of the \$330 million senior notes due 2021, and additions to short-term loans of \$59 million. The Company also paid \$21 million in distributions to noncontrolling interests in the first six months of 2013. The Company also repurchased shares of its common stock for \$12 million and \$10 million in the first six months of 2014 and 2013, respectively.

The Company anticipates that cash flows 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 (twelve months) and long-term basis. 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.

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

The impact of, and any associated risks related to, estimates and assumptions are discussed within Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to the Condensed Consolidated Financial Statements, if applicable, where estimates and assumptions affect the Company's reported and expected financial results.

There have been no other material changes in critical accounting estimates at June 30, 2014 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

## 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. The words believe, expect, anticipate, will, could, would, should, may, plan, estimate, predict, potential, continue, and the negatives of these words and other similar expressions generally identify forward looking statements. It is possible the Company's future financial performance may differ from expectations due to a variety of factors including, but not limited to the following: (1) foreign currency fluctuations relative to the U.S. dollar, specifically the Euro, Brazilian real and Australian dollar, (2) changes in capital availability or cost, including interest rate fluctuations and the ability of the Company to refinance debt at favorable terms, (3) the general political, economic and competitive conditions in markets and countries where the Company has operations, including uncertainties related to economic and social conditions, disruptions in capital markets, disruptions in the supply chain, competitive pricing pressures, inflation or deflation, and changes in tax rates and laws, (4) consumer preferences for alternative forms of packaging, (5) cost and availability of raw materials, labor, energy and transportation, (6) the Company's ability to manage its cost structure, including its success in implementing restructuring plans and achieving cost savings, (7) consolidation among competitors and customers, (8) the ability of the Company to acquire businesses and expand plants, integrate operations of acquired businesses and achieve expected synergies, (9) unanticipated expenditures with respect to environmental, safety and health laws, (10) the Company's ability to further develop its sales, marketing and product development capabilities, and (11) the timing and occurrence of events which are beyond the control of the Company, including any expropriation of the Company's operations, floods and other natural disasters, events related to asbestos-related claims, and the other risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 and any subsequently filed Quarterly Report on Form 10-Q. It is not possible to foresee or identify all such factors. Any forward looking statements in this document are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. Forward looking statements are not a guarantee of future performance and actual results or developments may differ materially from expectations. While the Company continually reviews trends and uncertainties affecting the Company's results of operations and financial condition, the Company does not assume any obligation to update or supplement any particular forward looking statements contained in this document.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk.**

There have been no material changes in market risk at June 30, 2014 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**Item 4. Controls and Procedures.**

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

As required by Rule 13a-15(b) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2014.

Management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2013. As required by Rule 13a-15(d) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of any change in the Company's internal controls over financial reporting that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company has undertaken a phased implementation of an Enterprise Resource Planning software system. The phased implementation commenced in the South America segment during 2013 and concluded during the second quarter of 2014, resulting in changes to certain processes in that segment. The Company believes it is maintaining and monitoring appropriate internal controls during the implementation period and further believes that its internal control environment will be enhanced as a result of implementation. There have been no other changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are 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 9 to the Condensed Consolidated Financial Statements, Contingencies, that is included in Part I of this Report and is incorporated herein by reference.

**Item 1A. Risk Factors.**

There have been no material changes in risk factors at June 30, 2014 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

## Issuer Purchases of Equity Securities

| Period                   | Total Number of Shares Purchased (in thousands) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (in thousands) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (in millions) |
|--------------------------|---|------------------------------|--|---|
| April 1 - April 30, 2014 |   |                              |  |   |
| May 1 - May 31, 2014     | 248   | \$ 32.68                     |  |   |
| June 1 - June 30, 2014   | 116   | \$ 33.41                     | 364  | \$ 88   |

During the three months ended June 30, 2014, the Company purchased 364,000 shares of its common stock for \$12 million pursuant to authorization by its Board of Directors in December 2013 to purchase up to \$100 million of the Company's common stock through December 31, 2015.

**Item 6. Exhibits.**

|               |   |
|---------------|---|
| Exhibit 12    | Computation of Ratio of Earnings to Fixed Charges.  |
| Exhibit 31.1  | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| Exhibit 31.2  | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| Exhibit 32.1* | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.  |
| Exhibit 32.2* | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.  |
| Exhibit 101   | Financial statements from the quarterly report on Form 10-Q of Owens-Illinois, Inc. for the quarter ended June 30, 2014, formatted in XBRL: (i) the Condensed Consolidated Results of Operations, (ii) the Condensed Consolidated Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements. |

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\* 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 July 30, 2014

By /s/ Stephen P. Bramlage, Jr.  
Stephen P. Bramlage, Jr.  
Senior Vice President and Chief Financial  
Officer (Principal Financial Officer; Principal  
Accounting Officer)

INDEX TO EXHIBITS

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