



10-K

YEAR ENDING 12.31.2014

Owens-Illinois, Inc.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D. C. 20549

FORM 10-K

(Mark One)

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

**For the fiscal year ended
December 31, 2014**

or

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

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**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value (based on the consolidated tape closing price on June 30, 2014) of the voting and non-voting common equity held by non-affiliates of Owens-Illinois, Inc. was approximately \$6,514,118,000. For the sole purpose of making this calculation, the term "non-affiliate" has been interpreted to exclude directors and executive officers of the Company. Such interpretation is not intended to be, and should not be construed to be, an admission by Owens-Illinois, Inc. or such directors or executive officers of the Company that such directors and executive officers of the Company are "affiliates" of Owens-Illinois, Inc., as that term is defined under the Securities Act of 1934.

The number of shares of common stock, \$.01 par value of Owens-Illinois, Inc. outstanding as of January 31, 2015 was 164,222,147.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Owens-Illinois, Inc. Proxy Statement for The Annual Meeting of Share Owners To Be Held Tuesday, May 12, 2015 ("Proxy Statement") are incorporated by reference into Part III hereof.

TABLE OF GUARANTORS

<u>Exact Name of Registrant As Specified In Its Charter</u>	<u>State/Country of Incorporation or Organization</u>	<u>Primary Standard Industrial Classification Code Number</u>	<u>I.R.S Employee Identification Number</u>
Owens-Illinois Group, Inc	Delaware	6719	34-1559348
Owens-Brockway Packaging, Inc	Delaware	6719	34-1559346

The address, including zip code, and telephone number, of each additional registrant's principal executive office is One Michael Owens Way, Perrysburg, Ohio 43551; (567) 336-5000. These companies are listed as guarantors of the debt securities of the registrant. The consolidating condensed financial statements of the Company depicting separately its guarantor and non-guarantor subsidiaries are presented in the notes to the consolidated financial statements. All of the equity securities of each of the guarantors set forth in the table above are owned, either directly or indirectly, by Owens-Illinois, Inc.

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PART I

ITEM 1. BUSINESS

General Development of Business

Owens-Illinois, Inc. (the “Company”), through its subsidiaries, is the successor to a business established in 1903. The Company is the largest manufacturer of glass containers in the world with 75 glass manufacturing plants in 21 countries. It competes in the glass container segment of the rigid packaging market and is the leading glass container manufacturer in most of the countries where it has manufacturing facilities.

Company Strategy

The Company’s ambition is to be the world’s leading maker of brand-building glass containers, delivering unmatched quality, innovation and service to its customers; generating strong financial results for its investors; and providing a safe, motivating and engaging work environment for its employees. To accomplish this ambition, the Company is focused on the following objectives:

- **Reduce structural costs** through specific programs such as permanent footprint adjustments, asset optimization and global cost-cutting initiatives;
- **Grow selectively** by taking advantage of the Company’s position in emerging markets around the world and strengthening the Company’s positions in Europe and North America;
- **Deliver brand-building product innovation** to the Company’s customers to help them build, develop and expand their brands; and
- **Invest strategically in process innovation and research and development** to reduce manufacturing costs and improve efficiency, flexibility, reliability and sustainability.

Reportable Segments

The Company has four reportable segments based on its geographic locations: Europe, North America, South America and Asia Pacific. Information as to sales, earnings from continuing operations before interest income, interest expense, and provision for income taxes and excluding amounts related to certain items that management considers not representative of ongoing operations (“segment operating profit”), and total assets by reportable segment is included in Note 2 to the Consolidated Financial Statements.

Products and Services

The Company produces glass containers for alcoholic beverages, including beer, flavored malt beverages, spirits and wine. The Company also produces glass packaging for a variety of food items, soft drinks, teas, juices and pharmaceuticals. The Company manufactures glass containers in a wide range of sizes, shapes and colors and is active in new product development and glass container innovation.

Customers

In most of the countries where the Company competes, it has the leading position in the glass container segment of the rigid packaging market based on sales revenue. The Company’s largest customers consist mainly of the leading global food and beverage manufacturers, including (in alphabetical order) Anheuser-Busch InBev, Brown Forman, Carlsberg, Diageo, Heineken, Kirin, MillerCoors, Nestle, PepsiCo, Pernod Ricard, SABMiller, and Saxco International. No customer represents more than 10% of the Company’s consolidated net sales.

The Company sells most of its glass container products directly to customers under annual or multi-year supply agreements. Multi-year contracts typically provide for price adjustments based on cost changes. The Company also sells some of its products through distributors. Many customers provide the Company with regular estimates of their product needs, which enables the Company to schedule glass container production to maintain reasonable levels of inventory. Glass container manufacturing facilities are generally located in close proximity to customers.

Markets and Competitive Conditions

The Company's principal markets for glass container products are in Europe, North America, South America and Asia Pacific.

Europe. The Company has a leading share of the glass container segment of the rigid packaging market in the European countries in which it operates, with 35 glass container manufacturing plants located in the Czech Republic, Estonia, France, Germany, Hungary, Italy, the Netherlands, Poland, Spain and the United Kingdom. These plants primarily produce glass containers for the beer, wine, champagne, spirits and food markets in these countries. The Company also has interests in two joint ventures that manufacture glass containers in Italy. Throughout Europe, the Company competes directly with a variety of glass container manufacturers including Verallia, Ardagh Group, Vetropack and Vidrala.

North America. The Company has 19 glass container manufacturing plants in the U.S. and Canada, and also has an interest in a joint venture that manufactures glass containers in the U.S. The Company has the leading share of the glass container segment of the U.S. rigid packaging market, based on sales revenue by domestic producers. The principal glass container competitors in the U.S. are the Ardagh Group and Anchor Glass Container. Imports from Canada, China, Mexico, Taiwan and other countries also compete in U.S. glass container segments. Additionally, there are several major consumer packaged goods companies that self-manufacture glass containers.

South America. The Company has 13 glass manufacturing plants in South America, located in Argentina, Brazil, Colombia, Ecuador and Peru. In South America, the Company maintains a diversified portfolio serving several markets, including beer, non-alcoholic beverages, spirits, flavored malt beverages, wine, food and pharmaceuticals. The region also has a large infrastructure for returnable/refillable glass containers. The Company competes directly with Verallia in Brazil and Argentina, and does not believe that it competes with any other large, multinational glass container manufacturers in the rest of the region.

Asia Pacific. The Company has 8 glass container manufacturing plants in the Asia Pacific region, located in Australia, China, Indonesia and New Zealand. It also has interests in joint venture operations in China, Malaysia and Vietnam. In Asia Pacific, the Company primarily produces glass containers for the beer, wine, food and non-alcoholic beverage markets. The Company competes directly with Orora Limited (formerly Amcor Limited) in Australia, and does not believe that it competes with any other large, multinational glass container manufacturers in the rest of the region. In China, the glass container segments of the packaging market are regional and highly fragmented with a large number of local competitors.

In addition to competing with other large and well-established manufacturers in the glass container segment, the Company competes in all regions with manufacturers of other forms of rigid packaging, principally aluminum cans and plastic containers. Competition is based on quality, price, service, innovation and the marketing attributes of the container. The principal competitors producing metal containers include Ball Corporation, Crown Holdings, Inc., Rexam plc, and Silgan Holdings Inc. The principal competitors producing plastic containers include Amcor, Consolidated Container Holdings, LLC, Reynolds Group Holdings Limited, Plastipak Packaging, Inc. and Silgan Holdings Inc.

The Company also competes with manufacturers of non-rigid packaging alternatives, including flexible pouches, aseptic cartons and bag-in-box containers.

The Company seeks to provide products and services to customers ranging from large multinationals to small local breweries and wineries in a way that creates a competitive advantage for the Company. The Company believes that it is often the glass container partner of choice because of its innovation and branding capabilities, its global footprint and its expertise in manufacturing know-how and process technology.

Seasonality

Sales of many glass container products such as beer, beverages and food are seasonal. Shipments in the U.S. and Europe are typically greater in the second and third quarters of the year, while shipments in the Asia Pacific region are typically greater in the first and fourth quarters of the year, and shipments in South America are typically greater in the third and fourth quarters of the year.

Manufacturing

The Company has 75 glass manufacturing plants. It constantly seeks to improve the productivity of these operations through the systematic upgrading of production capabilities, sharing of best practices among plants and effective training of employees.

The Company also provides engineering support for its glass manufacturing operations through facilities located in the U.S., Australia, Poland, Colombia and Peru.

Suppliers and Raw Materials

The primary raw materials used in the Company's glass container operations are sand, soda ash, limestone and recycled glass. Each of these materials, as well as the other raw materials used to manufacture glass containers, has historically been available in adequate supply from multiple sources. One of the sources is a soda ash mining operation in Wyoming in which the Company has a 25% interest.

Energy

The Company's glass container operations require a continuous supply of significant amounts of energy, principally natural gas, fuel oil and electrical power. Adequate supplies of energy are generally available at all of the Company's manufacturing locations. Energy costs typically account for 10-25% of the Company's total manufacturing costs, depending on the cost of energy, the type of energy available, the factory location and the particular energy requirements. The percentage of total cost related to energy can vary significantly because of volatility in market prices, particularly for natural gas and fuel oil in volatile markets such as North America and Europe.

In North America, approximately 95% of the sales volume is represented by customer contracts that contain provisions that pass the price of natural gas to the customer, effectively reducing the North America segment's exposure to changing natural gas market prices. Also, in order to limit the effects of fluctuations in market prices for natural gas, the Company uses commodity forward contracts related to its forecasted requirements in North America. The objective of these forward contracts is to reduce potential volatility in cash flows and expense due to changing market prices. The Company continually evaluates the energy markets with respect to its forecasted energy requirements to optimize its use of commodity forward contracts.

In Europe and Asia Pacific, the Company enters into fixed price contracts for a significant amount of its energy requirements. These contracts typically have terms of 12 months or less in Europe and one to three years in Asia Pacific. In South America, the Company enters into fixed price contracts for

its energy requirements. These contracts typically have terms of three years, with annual price adjustments for inflation and for certain contracts price adjustments for foreign currency variation.

Technical Assistance License Agreements

The Company has agreements to license its proprietary glass container technology and to provide technical assistance to a limited number of companies around the world. These agreements cover areas related to manufacturing and engineering assistance. The worldwide licensee network provides a stream of revenue to help support the Company's development activities. In the years 2014, 2013 and 2012, the Company earned \$13 million, \$16 million and \$17 million, respectively, in royalties and net technical assistance revenue.

Research, Development and Engineering

Research, development and engineering constitute important parts of the Company's technical activities. Expenditures for these activities were \$63 million, \$62 million and \$62 million for 2014, 2013 and 2012, respectively. The Company primarily focuses on advancements in the areas of product innovation, manufacturing process control, melting technology, automatic inspection, light-weighting and further automation of manufacturing activities. The Company's research and development activities are conducted at its corporate facilities in Perrysburg, Ohio. During 2013, the Company completed the construction of a new research and development facility at this location. This new facility has enabled the Company to expand its research and development capabilities.

The Company holds a large number of patents related to a wide variety of products and processes and has a substantial number of patent applications pending. While the aggregate of the Company's patents are of material importance to its businesses, the Company does not consider that any patent or group of patents relating to a particular product or process is of material importance when judged from the standpoint of any individual segment or its businesses as a whole.

Sustainability and the Environment

The Company is committed to reducing the impact its products and operations have on the environment. As part of this commitment, the Company has set targets for increasing the use of recycled glass in its manufacturing process, while reducing energy consumption and carbon dioxide equivalent ("CO₂") emissions. Specific actions taken by the Company include working with governments and other organizations to establish and financially support recycling initiatives, partnering with other entities throughout the supply chain to improve the effectiveness of recycling efforts, reducing the weight of glass packaging and investing in research and development to reduce energy consumption in its manufacturing process. The Company invests in technology and training to improve safety, reduce energy use, decrease emissions and increase the amount of cullet, or recycled glass, used in the production process.

The Company's worldwide operations, in addition to other companies within the industry, are subject to extensive laws, ordinances, regulations and other legal requirements relating to environmental protection, including legal requirements governing investigation and clean-up of contaminated properties as well as water discharges, air emissions, waste management and workplace health and safety. The Company strives to abide by and uphold such laws and regulations.

Glass Recycling and Bottle Deposits

The Company is an important contributor to recycling efforts worldwide and is among the largest users of recycled glass containers. If sufficient high-quality recycled glass were available on a consistent basis, the Company has the technology to make glass containers containing a high proportion of

recycled glass. Using recycled glass in the manufacturing process reduces energy costs and impacts the operating life and efficiency of the glass melting furnaces.

In the U.S., Canada, Europe and elsewhere, government authorities have adopted or are considering legal requirements that would mandate certain recycling rates, the use of recycled materials, or limitations on or preferences for certain types of packaging. The Company believes that governments worldwide will continue to develop and enact legal requirements around guiding customer and end-consumer packaging choices.

Sales of beverage containers are affected by governmental regulation of packaging, including deposit laws and extended producer responsibility regulations. As of December 31, 2014, there were a number of U.S. states, Canadian provinces and territories, European countries and Australian states with some form of incentive for consumer returns of glass bottles in their law. The structure and enforcement of such laws and regulations can impact the sales of beverage containers in a given jurisdiction. Such laws and regulations also impact the availability of post-consumer recycled glass for the Company to use in container production.

A number of states and provinces have recently considered or are now considering laws and regulations to encourage curbside, deposit and on-premise glass recycling. Although there is no clear trend in the direction of these state and provincial laws and proposals, the Company believes that states and provinces, as well as municipalities within those jurisdictions, will continue to adopt recycling laws, which will impact supplies of recycled glass. As a large user of recycled glass for making new glass containers, the Company has an interest in laws and regulations impacting supplies of such material in its markets.

Air Emissions

In Europe, the European Union Emissions Trading Scheme (“EUETS”) is in effect to facilitate emissions reduction. The Company’s manufacturing facilities which operate in EU countries must restrict the volume of their CO₂ emissions to the level of their individually allocated emissions allowances as set by country regulators. If the actual level of emissions for any facility exceeds its allocated allowance, additional allowances can be bought to cover deficits; conversely, if the actual level of emissions for any facility is less than its allocation, the excess allowances can be sold. The EUETS has not had a material effect on the Company’s results to date. However, should the regulators significantly restrict the number of emissions allowances available, it could have a material effect in the future.

In North America, the U.S. and Canada are engaged in significant legislative and regulatory activity relating to CO₂ emissions, at the federal, state and provincial levels of government. The U.S. Environmental Protection Agency (“EPA”) regulates emissions of hazardous air pollutants under the Clean Air Act, which grants the EPA authority to establish limits for certain air pollutants and to require compliance, levy penalties and bring civil judicial action against violators. The structure and scope of the EPA’s CO₂ regulations are currently the subject of litigation and are expected to be the subject of federal legislative activity. The EPA regulations, if preserved as proposed, could have a significant long-term impact on the Company’s U.S. operations. The EPA also implemented the Cross-State Air Pollution Rule, which set stringent emissions limits in many states starting in 2012. The state of California in the U.S and the province of Quebec in Canada adopted cap-and-trade legislation aimed at reducing greenhouse gas emissions starting in 2013.

In Asia Pacific, the *National Greenhouse and Energy Reporting Act 2007* commenced on July 1, 2008 in Australia. This act established a mandatory reporting system for corporate greenhouse gas emissions and energy production and consumption. In 2011, the Australian government adopted a carbon pricing mechanism that took effect in 2012, which requires certain manufacturers to pay a tax based on their carbon-equivalent emissions. In July 2014 the carbon pricing mechanism was repealed by the Australian

government and has been replaced by the Emissions Reduction Fund which will purchase lowest cost abatement (in the form of Australian carbon credit units) from a wide range of sources, providing an incentive to businesses, households and landowners to proactively reduce their emissions. An emissions trading scheme has also been in effect in New Zealand since 2008.

In South America, the Brazilian government passed a law in 2009 requiring companies to reduce the level of greenhouse gas emissions by the year 2020. In the other South American countries, national and local governments are considering proposals that would impose regulations to reduce CO₂ emissions.

The Company is unable to predict what environmental legal requirements may be adopted in the future. However, the Company continually monitors its operations in relation to environmental impacts and invests in environmentally friendly and emissions-reducing projects. As such, the Company has made significant expenditures for environmental improvements at certain of its facilities over the last several years; however, these expenditures did not have a material adverse effect on the Company's results of operations or cash flows. The Company is unable to predict the impact of future environmental legal requirements on its results of operations or cash flows.

Employees

The Company's worldwide operations employed approximately 21,100 persons as of December 31, 2014. Approximately 77% of North American employees are hourly workers covered by collective bargaining agreements. The principal collective bargaining agreement, which at December 31, 2014, covered approximately 89% of the Company's union-affiliated employees in North America, will expire on March 31, 2016. Approximately 86% of employees in South America are covered by collective bargaining agreements. The majority of the hourly workers in Australia and New Zealand are also covered by collective bargaining agreements. The collective bargaining agreements in South America, Australia and New Zealand have varying terms and expiration dates. In Europe, a large number of the Company's employees are employed in countries in which employment laws provide greater bargaining or other rights to employees than the laws of the U.S. Such employment rights require the Company to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. The Company considers its employee relations to be good and does not anticipate any material work stoppages in the near term.

Available Information

The Company's website is www.o-i.com. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 can be obtained from this site at no cost. The Company's SEC filings are also available for reading and copying at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The Company's Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of the Audit, Compensation, Nominating/Corporate Governance and Risk Oversight Committees are also available on the Investor Relations section of the Company's website. Copies of these documents are available in print to share owners upon request, addressed to the Corporate Secretary at the address above.

Executive Officers of the Registrant

<u>Name and Age</u>	<u>Position</u>
Albert P. L. Stroucken(67)	Chairman and Chief Executive Officer since 2006. Previously Chief Executive Officer of HB Fuller Company, a manufacturer of adhesives, sealants, coatings, paints and other specialty chemical products 1998-2006; Chairman of HB Fuller Company 1999-2006.
Stephen P. Bramlage, Jr.(44)	Chief Financial Officer and Senior Vice President since 2012; President of O-I Asia Pacific 2011-2012; General Manager of O-I New Zealand 2010-2011; Vice President of Finance 2008-2010; Vice President and Chief Financial Officer of O-I Europe 2008; Vice President and Treasurer 2006-2008.
Andres A. Lopez(52)	President, Glass Containers and Chief Operating Officer since February 1, 2015; Vice President and President of O-I Americas 2014-2015; Vice President and President of O-I South America 2009-2014; Vice President of global manufacturing and engineering 2006-2009.
James W. Baehren(64)	Senior Vice President and General Counsel since 2003; Senior Vice President Strategic Planning 2006-2012; Chief Administrative Officer 2004-2006; Corporate Secretary 1998-2010; Vice President and Director of Finance 2001-2003.
Paul A. Jarrell(52)	Senior Vice President since 2011; Chief Administrative Officer since 2013; Chief Human Resources Officer 2011-2012. Previously Executive Vice President and Chief Human Resources Officer for DSM, a life sciences and materials company based in The Netherlands 2009-2011; Vice President and Director of Human Resources for ITT, a fluid technologies and engineered products company 2006-2009.
Sergio B. O. Galindo(47)	Vice President and President of O-I Asia Pacific since 2012; General Manager of O-I Colombia 2009-2012.

Financial Information about Foreign and Domestic Operations

Information as to net sales, segment operating profit, and assets of the Company's reportable segments is included in Note 2 to the Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

Asbestos-Related Liability—The Company has made, and will continue to make, substantial payments to resolve claims of persons alleging exposure to asbestos-containing products and may need to record additional charges in the future for estimated asbestos-related costs. These substantial payments have affected and may continue to affect the Company’s cost of borrowing and the ability to pursue acquisitions.

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”).

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 \$4.4 billion through 2014, 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 inherent uncertainty of future disease incidence and claiming patterns against the Company, the significant expansion of the defendants that are now sued in this litigation, and the continuing changes in the extent to which these defendants participate in the resolution of cases in which the Company is also a defendant.

The Company conducted a comprehensive review of its asbestos-related liabilities and costs in connection with finalizing and reporting its results of operations for the year ended December 31, 2014 and concluded that an increase in its accrual for future asbestos-related costs in the amount of \$135 million (pretax and after tax) was required.

The significant assumptions underlying the material components of the Company’s accrual relate to:

- 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 asbestos-related disease cases and claiming patterns against the Company 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.

The ultimate amount of distributions that may be required to fund the Company’s asbestos-related payments cannot reasonably be estimated. The Company’s reported results of operations for 2014 were materially affected by the \$135 million (pretax and after tax) fourth quarter charge and asbestos-related payments continue to be substantial. Any future additional charge may 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, its ability to pursue global or domestic acquisitions, its ability to reinvest in its operations, and its ability to pay dividends.

Substantial Leverage—The Company's indebtedness could adversely affect the Company's financial health.

The Company has a significant amount of debt. As of December 31, 2014, the Company had approximately \$3.5 billion of total debt outstanding, a decrease from \$3.6 billion at December 31, 2013.

The Company's indebtedness could result in the following consequences:

- Increased vulnerability to general adverse economic and industry conditions;
- Increased vulnerability to interest rate increases for the portion of the debt under the secured credit agreement;
- Require the Company to dedicate a substantial portion of cash flow from operations to payments on indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions, development efforts and other general corporate purposes;
- Limit flexibility in planning for, or reacting to, changes in the Company's business and the rigid packaging market;
- Place the Company at a competitive disadvantage relative to its competitors that have less debt; and
- Limit, along with the financial and other restrictive covenants in the documents governing indebtedness, among other things, the Company's ability to borrow additional funds.

Ability to Service Debt—To service its indebtedness, the Company will require a significant amount of cash. The Company's ability to generate cash and refinance certain indebtedness depends on many factors beyond its control.

The Company's ability to make payments on and to refinance its indebtedness and to fund working capital, capital expenditures, acquisitions, development efforts and other general corporate purposes depends on its ability to generate cash in the future. The Company has no assurance that it will generate sufficient cash flow from operations, or that future borrowings will be available under the secured credit agreement, in an amount sufficient to enable the Company to pay its indebtedness, or to fund other liquidity needs. If short term interest rates increase, the Company's debt service cost will increase because some of its debt is subject to short term variable interest rates. At December 31, 2014, the Company's debt subject to variable interest rates represented approximately 21% of total debt.

The Company may need to refinance all or a portion of its indebtedness on or before maturity. If the Company is unable to generate sufficient cash flow and is unable to refinance or extend outstanding borrowings on commercially reasonable terms or at all, it may have to take one or more of the following actions:

- Reduce or delay capital expenditures planned for replacements, improvements and expansions;
- Sell assets;
- Restructure debt; and/or
- Obtain additional debt or equity financing.

The Company can provide no assurance that it could affect or implement any of these alternatives on satisfactory terms, if at all.

Debt Restrictions—The Company may not be able to finance future needs or adapt its business plans to changes because of restrictions placed on it by the secured credit agreement and the indentures and instruments governing other indebtedness.

The secured credit agreement, the indentures governing the senior debentures and notes, and certain of the agreements governing other indebtedness contain affirmative and negative covenants that limit the ability of the Company to take certain actions. For example, these indentures restrict, among other things, the ability of the Company and its restricted subsidiaries to borrow money, pay dividends on, or redeem or repurchase its stock, make investments, create liens, enter into certain transactions with affiliates and sell certain assets or merge with or into other companies. These restrictions could adversely affect the Company's ability to operate its businesses and may limit its ability to take advantage of potential business opportunities as they arise.

Failure to comply with these or other covenants and restrictions contained in the secured credit agreement, the indentures or agreements governing other indebtedness could result in a default under those agreements, and the debt under those agreements, together with accrued interest, could then be declared immediately due and payable. If a default occurs under the secured credit agreement, the Company could no longer request borrowings under the secured credit agreement, and the lenders could cause all of the outstanding debt obligations under such secured credit agreement to become due and payable, which would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. A default under the secured credit agreement, indentures or agreements governing other indebtedness could also lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross-default provisions.

Foreign Currency Exchange Rates—The Company is subject to the effects of fluctuations in foreign currency exchange rates, which could adversely impact the Company's financial results.

The Company's reporting currency is the U.S. dollar. A significant portion of the Company's net sales, costs, assets and liabilities are denominated in currencies other than the U.S. dollar, primarily the Euro, Brazilian real, Colombian peso and Australian dollar. In its consolidated financial statements, the Company remeasures transactions denominated in a currency other than the functional currency of the reporting entity (e.g. soda ash purchases) and translates local currency financial results into U.S. dollars based on the exchange rates prevailing during the reporting period. During times of a strengthening U.S. dollar, the reported revenues and earnings of the Company's international operations will be reduced because the local currencies will translate into fewer U.S. dollars. This could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

International Operations—The Company is subject to risks associated with operating in foreign countries.

The Company operates manufacturing and other facilities throughout the world. Net sales from non-U.S. operations totaled approximately \$4.9 billion, representing approximately 73% of the Company's net sales for the year ended December 31, 2014. As a result of its non-U.S. operations, the Company is subject to risks associated with operating in foreign countries, including:

- Political, social and economic instability;
- War, civil disturbance or acts of terrorism;
- Taking of property by nationalization or expropriation without fair compensation;
- Changes in governmental policies and regulations;
- Devaluations and fluctuations in currency exchange rates;

- Imposition of limitations on conversions of foreign currencies into dollars or remittance of dividends and other payments by foreign subsidiaries;
- Imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries;
- Hyperinflation in certain foreign countries;
- Impositions or increase of investment and other restrictions or requirements by foreign governments;
- Loss or non-renewal of treaties or other agreements with foreign tax authorities;
- Changes in tax laws, or the interpretation thereof, affecting foreign tax credits or tax deductions relating to our non-U.S. earnings or operations; and
- Complying with the U.S. Foreign Corrupt Practices Act, which prohibits companies and their intermediaries from engaging in bribery or other prohibited payments to foreign officials for the purposes of obtaining or retaining business or gaining an unfair business advantage and requires companies to maintain accurate books and records and internal controls.

The risks associated with operating in foreign countries may have a material adverse effect on operations.

Competition—The Company faces intense competition from other glass container producers, as well as from makers of alternative forms of packaging. Competitive pressures could adversely affect the Company's financial health.

The Company is subject to significant competition from other glass container producers, as well as from makers of alternative forms of packaging, such as aluminum cans and plastic containers. The Company also competes with manufacturers of non-rigid packaging alternatives, including flexible pouches and aseptic cartons, in serving the packaging needs of certain end-use markets, including juice customers. The Company competes with each rigid packaging competitor on the basis of price, quality, service and the marketing and functional attributes of the container. Advantages or disadvantages in any of these competitive factors may be sufficient to cause the customer to consider changing suppliers and/or using an alternative form of packaging. The adverse effects of consumer purchasing decisions may be more significant in periods of economic downturn and may lead to longer term reductions in consumer spending on glass packaged products.

Pressures from competitors and producers of alternative forms of packaging have resulted in excess capacity in certain countries in the past and have led to capacity adjustments and significant pricing pressures in the rigid packaging market.

Lower Demand Levels—Changes in consumer preferences may have a material adverse effect on the Company's financial results.

Changes in consumer preferences for the food and beverages they consume can reduce demand for the Company's products. Because many of the Company's products are used to package consumer goods, the Company's sales and profitability could be negatively impacted by changes in consumer preferences for those products. Examples of changes in consumer preferences include, but are not limited to, lower sales of major domestic beer brands and shifts from beer to wine or spirits that results in the use of fewer glass containers. In periods of lower demand, the Company's sales and production levels may decrease causing a material adverse effect on the Company's profitability.

High Energy Costs—Higher energy costs worldwide and interrupted power supplies may have a material adverse effect on operations.

Electrical power, natural gas, and fuel oil are vital to the Company's operations as it relies on a continuous energy supply to conduct its business. Depending on the location and mix of energy sources, energy accounts for 10% to 25% of total production costs. Substantial increases and volatility in energy costs could cause the Company to experience a significant increase in operating costs, which may have a material adverse effect on operations.

Global Economic Environment—The global credit, financial and economic environment could have a material adverse effect on operations and financial condition.

The global credit, financial and economic environment could have a material adverse effect on operations, including the following:

- Downturns in the business or financial condition of any of the Company's customers or suppliers could result in a loss of revenues or a disruption in the supply of raw materials;
- Tightening of credit in financial markets could reduce the Company's ability, as well as the ability of the Company's customers and suppliers, to obtain future financing;
- Volatile market performance could affect the fair value of the Company's pension assets and liabilities, potentially requiring the Company to make significant additional contributions to its pension plans to maintain prescribed funding levels;
- The deterioration of any of the lending parties under the Company's revolving credit facility or the creditworthiness of the counterparties to the Company's derivative transactions could result in such parties' failure to satisfy their obligations under their arrangements with the Company; and
- A significant weakening of the Company's financial position or results of operations could result in noncompliance with the covenants under the Company's indebtedness.

Business Integration Risks—The Company may not be able to effectively integrate additional businesses it acquires in the future.

The Company may consider strategic transactions, including acquisitions that will complement, strengthen and enhance growth in its worldwide glass operations. The Company evaluates opportunities on a preliminary basis from time to time, but these transactions may not advance beyond the preliminary stages or be completed. Such acquisitions are subject to various risks and uncertainties, including:

- The inability to integrate effectively the operations, products, technologies and personnel of the acquired companies (some of which are located in diverse geographic regions) and achieve expected synergies;
- The potential disruption of existing business and diversion of management's attention from day-to-day operations;
- The inability to maintain uniform standards, controls, procedures and policies;
- The need or obligation to divest portions of the acquired companies;
- The potential impairment of relationships with customers;
- The potential failure to identify material problems and liabilities during due diligence review of acquisition targets;

- The potential failure to obtain sufficient indemnification rights to fully offset possible liabilities associated with acquired businesses; and
- The challenges associated with operating in new geographic regions.

In addition, the Company cannot make assurances that the integration and consolidation of newly acquired businesses will achieve any anticipated cost savings and operating synergies.

Customer Consolidation—The continuing consolidation of the Company’s customer base may intensify pricing pressures and have a material adverse effect on operations.

Many of the Company’s largest customers have acquired companies with similar or complementary product lines. This consolidation has increased the concentration of the Company’s business with its largest customers. In many cases, such consolidation has been accompanied by pressure from customers for lower prices, reflecting the increase in the total volume of products purchased or the elimination of a price differential between the acquiring customer and the company acquired. Increased pricing pressures from the Company’s customers may have a material adverse effect on operations.

Operational Disruptions—Profitability could be affected by unanticipated operational disruptions.

The Company’s glass container manufacturing process is asset intensive and includes the use of large furnaces and machines. The Company periodically experiences unanticipated disruptions to its assets and these events can have an adverse effect on its business operations and profitability. The impacts of these operational disruptions include, but are not limited to, higher maintenance, production changeover and shipping costs, higher capital spending, as well as lower absorption of fixed costs during periods of extended downtime. The Company maintains insurance policies in amounts and with coverage and deductibles that are reasonable and in line with industry standards; however, this insurance coverage may not be adequate to protect the Company from all liabilities and expenses that may arise.

Seasonality—Profitability could be affected by varied seasonal demands.

Due principally to the seasonal nature of the consumption of beer and other beverages, for which demand is stronger during the summer months, sales of the Company’s products have varied and are expected to vary by quarter. Shipments in the U.S. and Europe are typically greater in the second and third quarters of the year, while shipments in the Asia Pacific region are typically greater in the first and fourth quarters of the year, and shipments in South America are typically greater in the third and fourth quarters of the year. Unseasonably cool weather during peak demand periods can reduce demand for certain beverages packaged in the Company’s containers.

Raw Materials—Profitability could be affected by the availability of raw materials.

The raw materials that the Company uses have historically been available in adequate supply from multiple sources. For certain raw materials, however, there may be temporary shortages due to weather or other factors, including disruptions in supply caused by raw material transportation or production delays. These shortages, as well as material volatility in the cost of any of the principal raw materials that the Company uses, may have a material adverse effect on operations.

Environmental Risks—The Company is subject to various environmental legal requirements and may be subject to new legal requirements in the future. These requirements may have a material adverse effect on operations.

The Company’s operations and properties are subject to extensive laws, ordinances, regulations and other legal requirements relating to environmental protection, including legal requirements governing

investigation and clean-up of contaminated properties as well as water discharges, air emissions, waste management and workplace health and safety. Such legal requirements frequently change and vary among jurisdictions. The Company's operations and properties must comply with these legal requirements. These requirements may have a material adverse effect on operations.

The Company has incurred, and expects to incur, costs for its operations to comply with environmental legal requirements, and these costs could increase in the future. Many environmental legal requirements provide for substantial fines, orders (including orders to cease operations), and criminal sanctions for violations. These legal requirements may apply to conditions at properties that the Company presently or formerly owned or operated, as well as at other properties for which the Company may be responsible, including those at which wastes attributable to the Company were disposed. A significant order or judgment against the Company, the loss of a significant permit or license or the imposition of a significant fine may have a material adverse effect on operations.

A number of governmental authorities have enacted, or are considering enacting, legal requirements that would mandate certain rates of recycling, the use of recycled materials and/or limitations on certain kinds of packaging materials. In addition, some companies with packaging needs have responded to such developments and/or perceived environmental concerns of consumers by using containers made in whole or in part of recycled materials. Such developments may reduce the demand for some of the Company's products and/or increase the Company's costs, which may have a material adverse effect on operations.

Taxes—Potential tax law changes could adversely affect net income and cash flow.

The Company is subject to income tax in the numerous jurisdictions in which it operates. Increases in income tax rates or other tax law changes, as well as ongoing audits by domestic and international authorities, could reduce the Company's net income and cash flow from affected jurisdictions. In particular, potential tax law changes in the U.S. regarding the treatment of the Company's unrepatriated non-U.S. earnings could have a material adverse effect on net income and cash flow. In addition, the Company's products are subject to import and excise duties and/or sales or value-added taxes in many jurisdictions in which it operates. Increases in these indirect taxes could affect the affordability of the Company's products and, therefore, reduce demand.

Labor Relations—Some of the Company's employees are unionized or represented by workers' councils.

The Company is party to a number of collective bargaining agreements with labor unions which at December 31, 2014, covered approximately 77% of the Company's employees in North America. The principal collective bargaining agreement, which at December 31, 2014 covered approximately 89% of the Company's union-affiliated employees in North America, will expire on March 31, 2016. Approximately 86% of employees in South America are covered by collective bargaining agreements. The majority of the hourly workers in Australia and New Zealand are also covered by collective bargaining agreements. The collective bargaining agreements in South America, Australia and New Zealand have varying terms and expiration dates. Upon the expiration of any collective bargaining agreement, if the Company is unable to negotiate acceptable contracts with labor unions, it could result in strikes by the affected workers and increased operating costs as a result of higher wages or benefits paid to union members. In Europe, a large number of the Company's employees are employed in countries in which employment laws provide greater bargaining or other rights to employees than the laws of the U.S. Such employment rights require the Company to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. For example, most of the Company's employees in Europe are represented by workers' councils that must approve any changes in conditions of employment, including salaries and benefits and staff changes, and may impede efforts to restructure the Company's workforce. Although the Company believes that it has a good working relationship with its employees, if the Company's employees were to engage in a strike or other work

stoppage, the Company could experience a significant disruption of operations and/or higher ongoing labor costs, which may have a material adverse effect on operations.

Key Management and Personnel Retention—Failure to retain key management and personnel could have a material adverse effect on operations.

The Company believes that its future success depends, in part, on its experienced management team and certain key personnel. The loss of certain key management and personnel could limit the Company's ability to implement its business plans and meet its objectives.

Joint Ventures—Failure by joint venture partners to observe their obligations could have a material adverse effect on operations.

A portion of the Company's operations is conducted through joint ventures, including joint ventures in the Europe, North America and Asia Pacific segments. If the Company's joint venture partners do not observe their obligations or are unable to commit additional capital to the joint ventures, it is possible that the affected joint venture would not be able to operate in accordance with its business plans, which could have a material adverse effect on the Company's financial condition and results of operations.

Cybersecurity and Information Technology—Security threats and the failure or disruption of the integrity of the Company's information technology, or those of third parties with which it does business, could have a material adverse effect on its business and the results of operations.

The Company relies on information technology to operate its plants, to communicate with its employees, customers and suppliers, to store sensitive business information and intellectual property, and to report financial and operating results. As with all large systems, the Company's information technology systems could fail on their own accord or may be vulnerable to a variety of interruptions due to events, including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers or other security issues. While the Company has disaster recovery programs in place, failure or disruption of the Company's information technology systems could result in transaction errors, loss of customers, business disruptions, or loss of or damage to intellectual property, which could have a material adverse effect on operations.

As cyberattacks on various organizations have increased, the Company's information technology systems may be subject to increased security issues. While the Company has measures in place to prevent and detect global security threats, the Company may be unable to prevent certain security breaches. This may result in the loss of customers and business opportunities, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensatory costs, and additional compliance costs. Failure or disruption of these systems, or the back-up systems, for any reason could disrupt the Company's operations and negatively impact the Company's cash flows or financial condition.

Accounting Estimates—The Company's financial results are based upon estimates and assumptions that may differ from actual results.

In preparing the Company's consolidated financial statements in accordance with U.S. generally accepted accounting principles, several estimates and assumptions are made that affect the accounting for and recognition of assets, liabilities, revenues and expenses. These estimates and assumptions must be made due to certain information used in the preparation of the Company's financial statements which is dependent on future events, cannot be calculated with a high degree of precision from data available or is not capable of being readily calculated based on generally accepted methodologies. The Company believes that accounting for long-lived assets, pension benefit plans, contingencies and

litigation, and income taxes involves the more significant judgments and estimates used in the preparation of its consolidated financial statements. Actual results for all estimates could differ materially from the estimates and assumptions that the Company uses, which could have a material adverse effect on the Company's financial condition and results of operations.

Accounting Standards—The adoption of new accounting standards or interpretations could adversely impact the Company's financial results.

New accounting standards or pronouncements could adversely affect the Company's operating results or cause unanticipated fluctuations in its results in future periods. The accounting rules and regulations that the Company must comply with are complex and continually changing. In addition, many companies' accounting policies are being subjected to heightened scrutiny by regulators and the public. While the Company believes that its financial statements have been prepared in accordance with U.S. generally accepted accounting principles, the Company cannot predict the impact of future changes to accounting principles or its accounting policies on its financial statements going forward.

Goodwill—A significant write down of goodwill would have a material adverse effect on the Company's reported results of operations and net worth.

Goodwill at December 31, 2014 totaled \$1.9 billion. The Company evaluates goodwill annually (or more frequently if impairment indicators arise) for impairment using the required business valuation methods. These methods include the use of a weighted average cost of capital to calculate the present value of the expected future cash flows of the Company's reporting units. Future changes in the cost of capital, expected cash flows, or other factors may cause the Company's goodwill to be impaired, resulting in a non-cash charge against results of operations to write down goodwill for the amount of the impairment. If a significant write down is required, the charge would have a material adverse effect on the Company's reported results of operations and net worth.

Pension Funding—An increase in the underfunded status of the Company's pension plans could adversely impact the Company's operations, financial condition and liquidity.

The Company contributed \$28 million, \$96 million and \$219 million to its defined benefit pension plans in 2014, 2013 and 2012, respectively. The amount the Company is required to contribute to these plans is determined by the laws and regulations governing each plan, and is generally related to the funded status of the plans. A deterioration in the value of the plans' investments or a decrease in the discount rate used to calculate plan liabilities generally would increase the underfunded status of the plans. An increase in the underfunded status of the plans could result in an increase in the Company's obligation to make contributions to the plans, thereby reducing the cash available for working capital and other corporate uses, and may have an adverse impact on the Company's operations, financial condition and liquidity.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The principal manufacturing facilities and other material important physical properties of the Company at December 31, 2014 are listed below. All properties are glass container plants and are owned in fee, except where otherwise noted.

North American Operations

United States

Atlanta, GA	Portland, OR
Auburn, NY	Streator, IL
Brockway, PA	Toano, VA
Crenshaw, PA	Tracy, CA
Danville, VA	Waco, TX
Lapel, IN	Windsor, CO
Los Angeles, CA	Winston-Salem, NC
Muskogee, OK	Zanesville, OH
Oakland, CA	

Canada

Brampton, Ontario	Montreal, Quebec
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Asia Pacific Operations

Australia

Adelaide	Melbourne
Brisbane	Sydney

China

Tianjin	Zhaoqing
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Indonesia

Jakarta

New Zealand

Auckland

European Operations

Czech Republic

Dubi	Nove Sedlo
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Estonia

Jarvakandi

France

Beziers	Vayres
Gironcourt	Veauche
Labegude	Vergeze
Puy-Guillaume	Wingles
Reims	

Germany

Bernsdorf	Rinteln
Holzminden	

Hungary

Oroshaza

Italy	
Asti	Origgio
Aprilia	Ottaviano
Bari	San Gemini
Marsala	San Polo
Mezzocorona	Villotta
The Netherlands	
Leerdam	Schiedam
Maastricht	
Poland	
Jaroslaw	Poznan
Spain	
Barcelona	Sevilla
United Kingdom	
Alloa	Harlow
<i>South American Operations</i>	
Argentina	
Rosario	
Brazil	
Fortaleza	Sao Paulo
Recife	Vitoria de Santo Antao (glass container
Rio de Janeiro (glass container	and tableware)
and tableware)	
Colombia	
Buga (tableware)	Soacha
Envigado	Zipaquirá
Ecuador	
Guayaquil	
Peru	
Callao	Lurin(1)
<i>Other Operations</i>	
Engineering Support Centers	
Brockway, Pennsylvania	Jaroslaw, Poland
Cali, Colombia	Lurin, Peru
Hawthorn, Australia	Perrysburg, Ohio
Shared Service Centers	
Perrysburg, Ohio	Poznan, Poland(1)
Medellin, Colombia	
Corporate Facilities	
Hawthorn, Australia(1)	Miami, Florida(1)
Perrysburg, Ohio(1)	Vufflens-la-Ville, Switzerland(1)

(1) This facility is leased in whole or in part.

The Company believes that its facilities are well maintained and currently adequate for its planned production requirements over the next three to five years.

ITEM 3. LEGAL PROCEEDINGS

For further information on legal proceedings, see Note 13 to the Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHARE OWNER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The price range for the Company's common stock on the New York Stock Exchange, as reported by the Financial Industry Regulatory Authority, Inc., was as follows:

	2014		2013	
	High	Low	High	Low
First Quarter	\$35.53	\$30.88	\$27.66	\$21.82
Second Quarter	34.73	31.17	28.89	24.26
Third Quarter	35.16	26.05	31.27	27.74
Fourth Quarter	27.29	23.53	35.78	28.82

The number of share owners of record on December 31, 2014 was 1,163. Approximately 99% of the outstanding shares were registered in the name of Depository Trust Company, or CEDE, which held such shares on behalf of a number of brokerage firms, banks, and other financial institutions. The shares attributed to these financial institutions, in turn, represented the interests of more than 29,000 unidentified beneficial owners. No dividends have been declared or paid since the Company's initial public offering in December 1991 and the Company does not anticipate paying any dividends in the near future. For restrictions on payment of dividends on the Company's common stock, see Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity—Current and Long-Term Debt and Note 12 to the Consolidated Financial Statements.

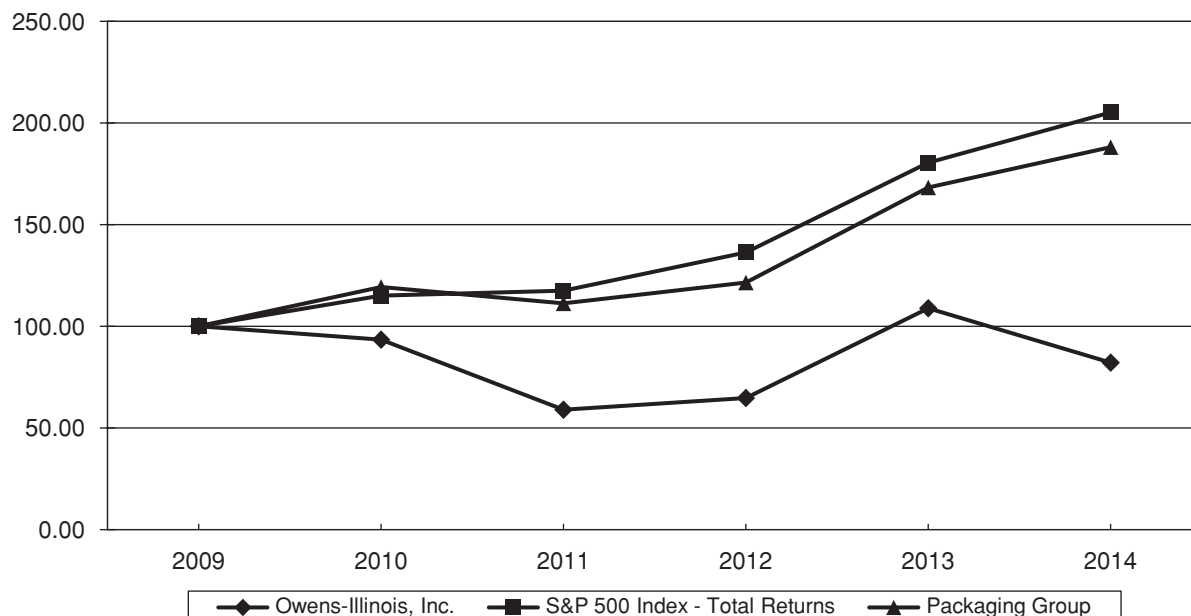
Information with respect to securities authorized for issuance under equity compensation plans is included herein under Item 12.

The Company purchased 779,506 shares of its common stock during the fourth quarter of 2014 (1.1 million shares for the year) pursuant to authorization by its Board of Directors in October 2014 to purchase up to \$500 million of the Company's common stock until December 31, 2017. The following table provides information about the Company's purchases of its common stock during the fourth quarter of 2014:

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)
October 1 - October 31, 2014				\$500
November 1 - November 30, 2014	700	\$25.64	700	\$482
December 1 - December 31, 2014	80	\$25.72	780	\$480

**PERFORMANCE GRAPH
COMPARISON OF CUMULATIVE TOTAL RETURN
AMONG OWENS-ILLINOIS, INC., S&P 500, AND PACKAGING GROUP**



	Years Ending December 31,					
	2009	2010	2011	2012	2013	2014
Owens-Illinois, Inc.	\$100.00	\$ 93.40	\$ 58.96	\$ 64.71	\$108.85	\$ 82.11
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14
Packaging Group	100.00	119.30	111.26	121.49	168.24	188.06

The above graph compares the performance of the Company's Common Stock with that of a broad market index (the S&P 500 Composite Index) and a packaging group consisting of companies with lines of business or product end uses comparable to those of the Company for which market quotations are available.

The packaging group consists of: AptarGroup, Inc., Ball Corp., Bemis Company, Inc., Crown Holdings, Inc., Owens-Illinois, Inc., Sealed Air Corp., Silgan Holdings Inc., and Sonoco Products Co.

The comparison of total return on investment for each period is based on the investment of \$100 on December 31, 2009 and the change in market value of the stock, including additional shares assumed purchased through reinvestment of dividends, if any.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below relates to each of the five years in the period ended December 31, 2014. The financial data for each of the five years in the period ended December 31, 2014 was derived from the audited consolidated financial statements of the Company.

	Years ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Consolidated operating results(a):					
Net sales	\$ 6,784	\$ 6,967	\$ 7,000	\$ 7,358	\$ 6,633
Cost of goods sold(b)	<u>(5,531)</u>	<u>(5,636)</u>	<u>(5,626)</u>	<u>(5,969)</u>	<u>(5,281)</u>
Gross profit	1,253	1,331	1,374	1,389	1,352
Selling and administrative, research, development and engineering(b)	(586)	(568)	(617)	(627)	(554)
Other expense, net(b)	<u>(219)</u>	<u>(199)</u>	<u>(190)</u>	<u>(855)</u>	<u>(136)</u>
Earnings (loss) before interest expense and items below	448	564	567	(93)	662
Interest expense, net(b)	<u>(230)</u>	<u>(229)</u>	<u>(239)</u>	<u>(303)</u>	<u>(236)</u>
Earnings (loss) from continuing operations before income taxes	218	335	328	(396)	426
Provision for income taxes(b)	<u>(92)</u>	<u>(120)</u>	<u>(108)</u>	<u>(85)</u>	<u>(129)</u>
Earnings (loss) from continuing operations	126	215	220	(481)	297
Gain (loss) from discontinued operations	<u>(23)</u>	<u>(18)</u>	<u>(2)</u>	<u>1</u>	<u>(300)</u>
Net earnings (loss)	103	197	218	(480)	(3)
Net earnings attributable to noncontrolling interests . .	<u>(28)</u>	<u>(13)</u>	<u>(34)</u>	<u>(20)</u>	<u>(42)</u>
Net earnings (loss) attributable to the Company	<u>\$ 75</u>	<u>\$ 184</u>	<u>\$ 184</u>	<u>\$ (500)</u>	<u>\$ (45)</u>

	Years ended December 31,				
	2014	2013	2012	2011	2010
Basic earnings (loss) per share of common stock:					
Earnings (loss) from continuing operations . . .	\$ 0.60	\$ 1.22	\$ 1.13	\$ (3.06)	\$ 1.58
Earnings from discontinued operations					0.14
Gain (loss) on disposal of discontinued operations	(0.14)	(0.11)	(0.01)	0.01	(2.00)
Net earnings (loss)	<u>\$ 0.46</u>	<u>\$ 1.11</u>	<u>\$ 1.12</u>	<u>\$ (3.05)</u>	<u>\$ (0.28)</u>
Weighted average shares outstanding (in thousands)	<u>164,720</u>	<u>164,425</u>	<u>164,474</u>	<u>163,691</u>	<u>164,271</u>
Diluted earnings (loss) per share of common stock:					
Earnings (loss) from continuing operations . . .	\$ 0.59	\$ 1.22	\$ 1.12	\$ (3.06)	\$ 1.56
Earnings from discontinued operations					0.14
Gain (loss) on disposal of discontinued operations	(0.14)	(0.11)	(0.01)	0.01	(1.97)
Net earnings (loss)	<u>\$ 0.45</u>	<u>\$ 1.11</u>	<u>\$ 1.11</u>	<u>\$ (3.05)</u>	<u>\$ (0.27)</u>
Diluted average shares (in thousands)	<u>166,047</u>	<u>165,828</u>	<u>165,768</u>	<u>163,691</u>	<u>167,078</u>

For the year ended December 31, 2011, diluted earnings per share of common stock was equal to basic earnings per share of common stock due to the loss from continuing operations.

	Years ended December 31,				
	2014	2013	2012	2011	2010
(Dollars in millions)					
Other data:					
The following are included in earnings from continuing operations:					
Depreciation	\$ 335	\$ 350	\$ 378	\$ 405	\$ 369
Amortization of intangibles	83	47	34	17	22
Amortization of deferred finance fees (included in interest expense)	30	32	33	32	19
Balance sheet data (at end of period):					
Working capital (current assets less current liabilities) . .	\$ 43	\$ 296	\$ 486	\$ 498	\$ 698
Total assets	7,858	8,419	8,598	8,975	9,793
Total debt	3,460	3,567	3,773	4,033	4,278
Share owners' equity	1,275	1,603	1,055	1,041	2,065
Free cash flow(c)	\$ 329	\$ 339	\$ 290	\$ 220	\$ 100

(a) Amounts for 2010 - 2011 have been adjusted to reflect the retrospective application of a change in the method of valuing U.S. inventories to average cost from last-in, first-out.

Amounts related to the Company's Venezuelan operations have been reclassified to discontinued operations for 2010 as a result of the expropriation of those operations in 2010.

- (b) Note that the items below relate to items management considers not representative of ongoing operations.

	<u>Years ended December 31,</u>				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(dollars in millions)				
Cost of goods sold					
Restructuring, asset impairment and related charges	\$ 8	\$ —	\$ —	\$ —	\$ —
Pension settlement charges	50				
Acquisition-related fair value inventory adjustments					12
Selling and administrative, research, development and engineering					
Pension settlement charges	15				
Other expense, net					
Accrual for estimated future asbestos-related costs	135	145	155	165	170
Restructuring, asset impairment and other charges	78	119	168	112	13
Non-income tax charge	69				
Equity earnings related charges	5				
Gain related to cash received from the Chinese government as compensation for land in China that the Company was required to return to the government			(61)		
Write-down of goodwill in the Asia Pacific segment				641	
Acquisition-related restructuring, transaction and financing costs					20
Interest expense, net					
Note repurchase premiums and additional interest charges for the write-off of unamortized deferred financing fees related to the early extinguishment of debt	20	11		25	9
Reduction of interest expense to recognize the unamortized proceeds from terminated interest rate swaps					(9)
Provision for income taxes					
Tax benefits recorded for certain tax adjustments	(8)		(14)	(15)	
Net tax benefit related to the reversal of deferred tax valuation allowances and non-cash tax benefit transferred from other income categories					(32)
Net tax (benefit) expense for income tax on items above . . .	(34)	(14)	4	(22)	(7)
Net earnings attributable to noncontrolling interest					
Net impact of noncontrolling interests on items above	<u> </u>	<u>(13)</u>	<u> </u>	<u>(1)</u>	<u> </u>
	<u>\$338</u>	<u>\$248</u>	<u>\$252</u>	<u>\$905</u>	<u>\$176</u>

- (c) 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 is calculated as follows (dollars in millions):

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash provided by continuing operating activities	\$ 698	\$ 700	\$ 580	\$ 505	\$ 600
Additions to property, plant and equipment—					
continuing	<u>(369)</u>	<u>(361)</u>	<u>(290)</u>	<u>(285)</u>	<u>(500)</u>
Free cash flow	<u>\$ 329</u>	<u>\$ 339</u>	<u>\$ 290</u>	<u>\$ 220</u>	<u>\$ 100</u>

ITEM 7. 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 selected cash flow information, to evaluate performance and to allocate resources.

Financial information regarding the Company’s reportable segments is as follows (dollars in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales:			
Europe	\$2,794	\$2,787	\$2,717
North America	2,003	2,002	1,966
South America	1,159	1,186	1,252
Asia Pacific	793	966	1,028
Reportable segment totals	<u>6,749</u>	<u>6,941</u>	<u>6,963</u>
Other	35	26	37
Net sales	<u>\$6,784</u>	<u>\$6,967</u>	<u>\$7,000</u>

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Segment operating profit:			
Europe	\$ 353	\$ 305	\$ 307
North America	240	307	288
South America	227	204	227
Asia Pacific	88	131	113
Reportable segment totals	<u>908</u>	<u>947</u>	<u>935</u>
Items excluded from segment operating profit:			
Retained corporate costs and other	(100)	(119)	(106)
Restructuring, asset impairment and other charges	(91)	(119)	(168)
Charge for asbestos-related costs	(135)	(145)	(155)
Pension settlement charges	(65)		
Non-income tax charge	(69)		
Gain on China land compensation			61
Net interest expense	<u>(230)</u>	<u>(229)</u>	<u>(239)</u>
Earnings from continuing operations before income taxes . . .	218	335	328
Provision for income taxes	(92)	(120)	(108)
Earnings from continuing operations	126	215	220
Loss from discontinued operations	<u>(23)</u>	<u>(18)</u>	<u>(2)</u>
Net earnings	103	197	218
Net earnings attributable to noncontrolling interests	<u>(28)</u>	<u>(13)</u>	<u>(34)</u>
Net earnings attributable to the Company	<u>\$ 75</u>	<u>\$ 184</u>	<u>\$ 184</u>
Net earnings from continuing operations attributable to the Company	<u>\$ 98</u>	<u>\$ 202</u>	<u>\$ 186</u>

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

Executive Overview—Comparison of 2014 with 2013

2014 Highlights

- Segment operating profit decreased due to higher operating costs, partially offset by higher selling prices and the benefits from the European asset optimization program
- Entered into a joint venture in Mexico and a long-term supply agreement with Constellation Brands, Inc. to supply glass container for their beer business
- Issued \$800 million of senior notes due 2022 and 2025 and repurchased \$611 million of exchangeable senior notes
- Strong cash generation improves leverage ratio and continues share repurchases

Net sales decreased by \$183 million compared to the prior year due to a 2% decline in glass container shipments and due to the unfavorable effect of changes in foreign currency exchange rates. Higher selling prices had a positive impact on net sales.

Segment operating profit for reportable segments decreased by \$39 million compared to the prior year. The decrease was mainly attributable to higher operating costs, driven by cost inflation in most of the regions, higher supply chain and production costs in North America and lower production volumes in Asia Pacific and North America. Higher selling prices and the benefits from the European asset optimization partially offset these costs.

Net interest expense in 2014 increased \$1 million compared to 2013. The increase was due to higher note repurchase premiums and the write-off of finance fees related to debt that was repaid during 2014 prior to its maturity than experienced in 2013. Exclusive of these costs, net interest declined \$5 million in 2014 compared to 2013 due to debt reduction initiatives and lower interest rates.

Earnings from continuing operations attributable to the Company in 2014 were \$98 million, or \$0.59 per share (diluted), compared with \$202 million, or \$1.22 per share (diluted), for 2013. Earnings in both periods included items that management considered not representative of ongoing operations. These items decreased earnings from continuing operations attributable to the Company by \$338 million, or \$2.04 per share, in 2014 and \$248 million, or \$1.50 per share, in 2013.

Results of Operations—Comparison of 2014 with 2013

Net Sales

The Company's net sales in 2014 were \$6,784 million compared with \$6,967 million in 2013, a decrease of \$183 million. Glass container shipments, in tonnes, were down 2% in 2014 compared to 2013, driven by lower sales in Asia Pacific. Net sales were also lower due to the unfavorable effects of foreign currency exchange rate changes, primarily due to a weaker Brazilian real, Colombian peso and Australian dollar in relation to the U.S. dollar. Net sales in 2014 benefited from higher selling prices.

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

Net sales—2013		\$6,941
Price	\$ 73	
Sales volume	(112)	
Effects of changing foreign currency rates	<u>(153)</u>	
Total effect on net sales		<u>(192)</u>
Net sales—2014		<u>\$6,749</u>

Europe: Net sales in Europe in 2014 were \$2,794 million compared with \$2,787 in 2013, an increase of \$7 million, or less than 1%. Glass container shipments in 2014 increased 2% compared to the prior year, particularly in the beer and wine categories. The higher sales volume, which increased net sales by \$49 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 decreased by \$3 million due to the unfavorable effects of foreign currency exchange rate changes, as the Euro weakened in relation to the U.S. dollar. Lower selling prices also reduced sales by \$39 million in 2014.

North America: Net sales in North America in 2014 were \$2,003 million compared with \$2,002 million in 2013, an increase of \$1 million. Higher selling prices of \$45 million increased net sales in 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. Net sales declined by \$30 million in 2014 compared to the prior year due to a 1% decrease in glass container shipments and a less favorable sales mix. The primary driver for the decline in the region's volumes in 2014 was due to lower sales to major domestic beer brands. Unfavorable foreign currency exchange rates decreased net sales by \$14 million, as the Canadian dollar weakened in relation to the U.S. dollar.

South America: Net sales in South America in 2014 were \$1,159 million compared with \$1,186 million in 2013, a decrease of \$27 million, or 2%. The unfavorable effects of foreign currency exchange rate changes decreased net sales \$96 million in 2014 compared to 2013, principally due to a decline in the Brazilian real and the Colombian peso in relation to the U.S. dollar. Net sales increased by \$14 million in 2014 driven by a 4% increase in glass container shipments, partially offset by a change

in sales mix. Volume growth was particularly strong in the beer category in 2014 and was evident in most of the countries where the Company operates in the region. Improved pricing in the current year benefited net sales by \$55 million.

Asia Pacific: Net sales in Asia Pacific in 2014 were \$793 million compared with \$966 million for 2013, a decrease of \$173 million, or 18%. The decrease in net sales was primarily due to lower sales volume, which resulted in \$145 million of lower sales in 2014. Glass container shipments were down 20% 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 in the domestic beer and export wine markets. To balance supply with demand, the Company permanently closed a furnace in Australia in the third quarter of 2014. The unfavorable effects of foreign currency exchange rate changes decreased net sales \$40 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 \$12 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 2 to the Consolidated Financial Statements.

Segment operating profit of reportable segments in 2014 was \$908 million compared to \$947 million in 2013, a decrease of \$39 million, or 4%. The decline in segment operating profit was primarily due to higher operating costs, partially offset by the benefits from the European asset optimization program and higher selling prices. Operating costs increased in the current year due to cost inflation, higher supply chain and production costs in North America and lower production volumes in Asia Pacific.

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

Segment operating profit—2013		\$947
Price	\$ 73	
Sales volume	(7)	
Operating costs	(99)	
Effects of changing foreign currency rates	(6)	
Total net effect on segment operating profit		<u>(39)</u>
Segment operating profit—2014		<u>\$908</u>

Europe: Segment operating profit in Europe in 2014 was \$353 million compared with \$305 million in 2013, an increase of \$48 million, or 16%. Lower operating expenses, driven by cost deflation and benefits from the region's asset optimization program, had a \$70 million positive impact on segment operating profit in 2014. The increase in sales volume discussed above increased segment operating profit by \$14 million. Partially offsetting these benefits were lower selling prices, which were down \$39 million in the current year due, in part, to competitive pressures in the region. Foreign currency exchange rates increased segment profit by \$3 million in 2014.

In 2014, the Company continued implementing the European asset optimization program to increase the efficiency and capability of its European operations. Through this program, the Company expects to improve the long term profitability of this region through investments and by addressing higher cost facilities to better align its European manufacturing footprint with market and customer needs.

North America: Segment operating profit in North America in 2014 was \$240 million compared with \$307 million in 2013, a decrease of \$67 million, or 22%. The decrease in segment operating profit was primarily due to higher operating costs of \$102 million in the current year, which were driven by higher energy, raw material and supply chain costs, as well as lower production and productivity levels. The decrease in sales volume mentioned above reduced segment profit by \$9 million. Higher selling prices partially offset these impacts and increased segment operating profit by \$45 million in the current year. The unfavorable effects of foreign exchange rates decreased segment profit by \$1 million.

South America: Segment operating profit in South America in 2014 was \$227 million compared with \$204 million in 2013, an increase of \$23 million, or 11%. Higher selling prices increased segment operating profit in 2014 by \$55 million. The increase in sales volume discussed above increased segment operating profit by \$13 million. Several non-strategic asset sales also benefited segment operating profit by \$6 million in the current year. Operating costs were \$45 million higher in 2014, primarily driven by cost inflation, and partially offset by higher productivity in the region. The unfavorable effects of foreign currency exchange rate changes decreased segment operating profit by \$6 million in the current year.

Asia Pacific: Segment operating profit in Asia Pacific in 2014 was \$88 million compared with \$131 million in 2013, a decrease of \$43 million, or 33%. Operating costs increased by \$28 million in the current year and were driven by lower production volumes and cost inflation. The decline in sales volume discussed above decreased segment operating profit by \$25 million. The unfavorable effects of foreign currency exchange rates decreased segment profit by \$2 million. Higher selling prices increased segment profit by \$12 million in the current year.

Interest Expense, net

Net interest expense in 2014 was \$230 million compared with \$229 million in 2013. Interest expense for 2014 included \$20 million for note repurchase premiums and the write-off of finance fees related to the tender offer to purchase all of its outstanding 3.00% Exchangeable Senior Notes due 2015 (the “2015 Exchangeable Notes”). Net interest expense for 2013 included \$14 million for note repurchase premiums and the write-off of finance fees related to the discharge of the €300 million Senior Notes due 2017 (the “2017 Senior Notes”) and related to the repurchase of a portion of the 2015 Exchangeable Notes. Exclusive of these items, net interest expense decreased \$5 million in the current year primarily due to debt reduction initiatives and lower interest rates

Provision for Income Taxes

The Company’s effective tax rate from continuing operations for 2014 was 42.2%, compared with 35.8% for 2013. The effective tax rate for 2014 was impacted by the non-income tax charge, which was not deductible for income tax purposes. Excluding the amounts related to items that management considers not representative of ongoing operations, the Company’s effective tax rate for 2014 was 22.4%, compared with 21.9% for 2013.

Net Earnings Attributable to Noncontrolling Interests

Net earnings attributable to noncontrolling interests for 2014 was \$28 million compared to \$13 million for 2013. The increase in 2014 was primarily due to the nonoccurrence of the impacts from restructuring and asset impairment charges in 2013 at the Company’s less than wholly-owned facilities in South America and Asia Pacific, as well as higher earnings in the Company’s less than wholly-owned subsidiaries in South America in 2014.

Earnings from Continuing Operations Attributable to the Company

For 2014, the Company recorded earnings from continuing operations attributable to the Company of \$98 million compared with \$202 million for 2013. The after tax effects of the items excluded from segment operating profit, the unusual tax items and the additional interest charges increased or decreased earnings in 2014 and 2013 as set forth in the following table (dollars in millions).

<u>Description</u>	<u>Net Earnings Increase (Decrease)</u>	
	<u>2014</u>	<u>2013</u>
Restructuring, asset impairment and other charges	\$ (67)	\$ (92)
Note repurchase premiums and write-off of finance fees	(20)	(11)
Pension settlement charges	(55)	
Charge for asbestos-related costs	(135)	(145)
Non-income tax charge	(69)	
Tax benefit for certain tax adjustments	8	
Total	<u>\$(338)</u>	<u>\$(248)</u>

Foreign Currency Exchange Rates

Given the global nature of its operations, the Company is subject to fluctuations in foreign currency exchange rates. As described above, the Company's reported revenues and segment operating profit in 2014 were reduced due to foreign currency effects compared to 2013.

This trend has continued into 2015 as a result of a strengthening U.S. dollar. During times of a strengthening U.S. dollar, the reported revenues and segment operating profit of the Company's international operations will be reduced because the local currencies will translate into fewer U.S. dollars. The Company uses certain derivative instruments to mitigate a portion of the risk associated with changing foreign currency exchange rates.

Executive Overview—Comparison of 2013 with 2012

2013 Highlights

- Net sales lower due to unfavorable effects of foreign currency exchange rate changes and sales volume, partially offset by higher selling prices.
- Segment operating profit higher due to improved selling prices and global cost control initiatives, partially offset by cost inflation and the unfavorable effects of foreign currency exchange rate changes.
- Strong cash generation used to prepay debt and continue share repurchase program.

Net sales were \$33 million lower than the prior year due primarily to the unfavorable effects of changes in foreign currency exchange rates and sales volume. The unfavorable effects of foreign currency exchange rate changes were driven by a weaker Brazilian real and Australian dollar, partially offset by a stronger Euro. Higher selling prices had a positive impact on net sales.

Segment operating profit for reportable segments was \$12 million higher than the prior year. The increase was attributable to higher selling prices and lower operating expenses due to global cost control initiatives. Cost inflation and the effects of foreign currency exchange rate changes unfavorably impacted segment operating profit in 2013.

Interest expense in 2013 decreased \$9 million over 2012. The decrease was due to debt reduction initiatives and lower interest rates, partially offset by note repurchase premiums and the write-off of finance fees related to debt that was repaid during 2013 prior to its maturity.

The Company recorded earnings from continuing operations attributable to the Company in 2013 of \$202 million, or \$1.22 per share (diluted), compared with \$186 million, or \$1.12 per share, for 2012. Earnings in both periods included items that management considered not representative of ongoing operations. These items decreased earnings from continuing operations attributable to the Company by \$248 million, or \$1.50 per share, in 2013 and \$252 million, or \$1.52 per share, in 2012.

Results of Operations—Comparison of 2013 with 2012

Net Sales

The Company's net sales in 2013 were \$6,967 million compared with \$7,000 million in 2012, a decrease of \$33 million. Net sales were lower due to the unfavorable effects of foreign currency exchange rate changes, primarily due to a weaker Brazilian real and Australian dollar in relation to the U.S. dollar, partially offset by a stronger Euro. Glass container shipments, in tonnes, were down slightly in 2013 compared to 2012, with all regions reporting lower or flat sales volumes. Net sales benefited in 2013 from higher selling prices.

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

Net sales—2012		\$6,963
Price	\$118	
Sales volume	(48)	
Effects of changing foreign currency rates	(92)	
Total effect on net sales		(22)
Net sales—2013		<u>\$6,941</u>

Europe: Net sales in Europe in 2013 were \$2,787 million compared with \$2,717 million in 2012, an increase of \$70 million, or 3%. Net sales increased \$68 million due to the favorable effects of foreign currency exchange rate changes, as the Euro strengthened in relation to the U.S. dollar. Higher selling prices benefited net sales in the current year by \$18 million. Glass container shipments in 2013 were down less than 1% compared to the prior year, particularly in the beer and non-alcoholic beverage categories. The lower sales volume, which reduced net sales by \$16 million, was mainly due to the macroeconomic environment in Europe, partially offset by an increase in wine bottle sales due to the Company's efforts to recover wine share lost in 2012.

North America: Net sales in North America in 2013 were \$2,002 million compared with \$1,966 million in 2012, an increase of \$36 million, or 2%. The increase in net sales was due to higher selling prices of \$44 million. The benefit of higher selling prices was partially offset by the unfavorable effects of foreign currency exchange rate changes, which decreased net sales by \$8 million due to a weakening of the Canadian dollar in relation to the U.S. dollar. Glass container shipments were flat in the current year compared to the prior year, as lower megabeer bottle sales were offset by higher shipments of craft beer and non-alcoholic beverage containers.

South America: Net sales in South America in 2013 were \$1,186 million compared with \$1,252 million in 2012, a decrease of \$66 million, or 5%. The unfavorable effects of foreign currency exchange rate changes decreased net sales \$99 million in 2013 compared to 2012, principally due to a 10% decline in the Brazilian real in relation to the U.S. dollar. Lower sales volume in the current year reduced net sales by \$18 million due to a decline in glass container shipments of less than 1%, driven by lower beer demand across the region, general economic uncertainty and the impact of general

strikes in Colombia in the mining, agriculture and transportation industries. Higher selling prices benefited net sales \$51 million in the current year.

Asia Pacific: Net sales in Asia Pacific in 2013 were \$966 million compared with \$1,028 million in 2012, a decrease of \$62 million, or 6%. The unfavorable effects of foreign currency exchange rate changes decreased net sales \$53 million in 2013 compared to 2012, primarily due to the weakening of the Australian dollar in relation to the U.S. dollar. Glass container shipments were down almost 1% compared to the prior year, resulting in a \$14 million decline in net sales, driven by lower shipments of beer bottles partially offset by gains in non-alcoholic beverage and food containers. Improved pricing increased net sales \$5 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 2 to the Consolidated Financial Statements.

Segment operating profit of reportable segments in 2013 was \$947 million compared to \$935 million in 2012, an increase of \$12 million, or 1%. The increase in segment operating profit was the result of higher selling prices and lower operating expenses due to global cost control initiatives. Cost inflation negatively impacted segment operating profit in the current year. The effects of changes in foreign currency exchange rates unfavorably impacted segment operating profit in 2013, primarily due to a weaker Brazilian real and Australian dollar in relation to the U.S. dollar, partially offset by a stronger Euro. Manufacturing and delivery costs were flat with the prior year as lower global production volumes were offset by benefits realized from permanent footprint initiatives.

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

Segment operating profit—2012		\$935
Price and product mix	\$ 118	
Sales volume	(3)	
Cost inflation	(134)	
Manufacturing and delivery		
Operating expenses and other	44	
Effects of changing foreign currency rates	(13)	
Total net effect on segment operating profit		<u>12</u>
Segment operating profit—2013		<u>\$947</u>

Europe: Segment operating profit in Europe in 2013 was \$305 million compared with \$307 million in 2012, a decrease of \$2 million, or 1%. The higher selling prices discussed above increased segment operating profit by \$18 million, while the decline in sales volume decreased segment operating profit by \$3 million. Cost inflation in the current year reduced segment operating profit by \$39 million. Cost control initiatives and the asset optimization program, partially offset by higher spending on equipment repairs and logistical costs, had a net \$16 million positive impact on segment operating profit during 2013, while the favorable effects of foreign currency exchange rate changes increased segment operating profit by \$6 million.

The Company continued implementing the European asset optimization program to increase the efficiency and capability of its European operations. Through this program over the next several years,

the Company expects to improve the long term profitability of this region through investments and by addressing higher cost facilities to better align its European manufacturing footprint with market and customer needs.

North America: Segment operating profit in North America in 2013 was \$307 million compared with \$288 million in 2012, an increase of \$19 million, or 7%. Higher selling prices in the current year increased segment operating profit by \$44 million and lower operating expenses, driven by cost control initiatives, had a \$17 million positive impact on segment operating profit. Cost inflation had a \$40 million unfavorable impact on segment operating profit. Higher manufacturing and delivery costs decreased segment operating profit by \$2 million in the current year.

South America: Segment operating profit in South America in 2013 was \$204 million compared with \$227 million in 2012, a decrease of \$23 million, or 10%. The lower sales volume in the current year decreased segment operating profit by \$2 million, while higher selling prices improved segment operating profit by \$51 million, despite the price controls imposed by the Argentina government in the first half of the year. Cost inflation in the current year decreased segment operating profit by \$37 million and higher manufacturing and delivery costs resulted in a \$15 million decline in 2013 compared to the prior year. The higher manufacturing and delivery costs were primarily due to a higher number of furnace rebuilds and repairs in the current year and the effects of the general strikes in Colombia, partially offset by the benefits of the new furnace in Brazil that started production at the end of 2012. The unfavorable effects of foreign currency exchange rate changes decreased segment operating profit by \$14 million in the current year while other costs increased by \$6 million.

Asia Pacific: Segment operating profit in Asia Pacific in 2013 was \$131 million compared with \$113 million in 2012, an increase of \$18 million, or 16%. The increase in segment operating profit was primarily due to a \$18 million decline in manufacturing and delivery costs driven by the benefits realized from the permanent footprint adjustments made over the past year. Higher selling prices and sales volume increased segment operating profit by \$5 million and \$1 million, respectively, and lower operating expenses, driven by cost control initiatives, had a \$16 million positive impact in the current year. Cost inflation reduced segment operating profit by \$18 million, while the unfavorable effects of foreign currency exchange rate changes decreased segment operating profit by \$4 million in 2013.

Interest Expense

Interest expense in 2013 was \$239 million compared with \$248 million in 2012. 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, interest expense decreased \$23 million in the current year. The decrease was principally due to debt reduction initiatives and lower interest rates.

Provision for Income Taxes

The Company's effective tax rate from continuing operations for 2013 was 35.8%, compared with 32.9% for 2012. Excluding the amounts related to items that management considers not representative of ongoing operations, the Company's effective tax rate for 2013 was 21.9%, compared with 22.1% for 2012.

Net Earnings Attributable to Noncontrolling Interests

Net earnings attributable to noncontrolling interests for 2013 was \$13 million compared to \$34 million for 2012. The decrease was primarily due to \$14 million included in 2012 related to a gain

recorded by the Company for cash received from the Chinese government as compensation for land in China that the Company was required to return to the government.

Earnings from Continuing Operations Attributable to the Company

For 2013, the Company recorded earnings from continuing operations attributable to the Company of \$202 million compared with \$186 million for 2012. The after tax effects of the items excluded from segment operating profit, the unusual tax items and the additional interest charges increased or decreased earnings in 2013 and 2012 as set forth in the following table (dollars in millions).

<u>Description</u>	<u>Net Earnings Increase (Decrease)</u>	
	<u>2013</u>	<u>2012</u>
Restructuring, asset impairment and related charges	\$ (92)	\$(144)
Gain on China land compensation		33
Note repurchase premiums and write-off of finance fees	(11)	
Net benefit related to changes in unrecognized tax positions		14
Charge for asbestos-related costs	(145)	(155)
Total	<u>\$(248)</u>	<u>\$(252)</u>

Items Excluded from Reportable Segment Totals

Retained Corporate Costs and Other

Retained corporate costs and other for 2014 were \$100 million compared with \$119 million for 2013. Retained corporate costs and other declined in 2014 compared to 2013 due to lower pension expense.

Retained corporate costs and other for 2013 were \$119 million compared with \$106 million for 2012. Retained corporate costs and other for 2013 reflect lower earnings from global machine and equipment sales and other technical and engineering services, in addition to lower earnings from the Company's equity investment in a soda ash mining operation.

Restructuring, Asset Impairment and Other Charges

During 2014, the Company recorded charges totaling \$91 million for restructuring, asset impairment and other charges. These charges reflect \$76 million of completed and planned furnace closures in Europe and Asia Pacific and other charges of \$15 million.

During 2013, the Company recorded charges totaling \$119 million for restructuring, asset impairment and related charges. These charges reflect completed and planned plant and furnace closures in Europe, South America and Asia Pacific, as well as global headcount reduction initiatives. These charges also include an asset impairment charge related to the Company's operations in Argentina, primarily due to macroeconomic issues in that country.

During 2012, the Company recorded charges totaling \$168 million for restructuring, asset impairment and related charges. These charges reflect completed and planned plant and furnace closures in Europe and Asia Pacific, as well as global headcount reduction initiatives.

See Note 9 to the Consolidated Financial Statements for additional information.

Charge for Asbestos-Related Costs

The fourth quarter of 2014 charge for asbestos-related costs was \$135 million, compared to the fourth quarter of 2013 charge of \$145 million. These charges resulted from the Company's comprehensive annual review of asbestos-related liabilities and costs. In each year, the Company concluded that an increase in the accrued liability was required to provide for estimated indemnity payments and legal fees arising from asbestos personal injury lawsuits and claims pending and expected to be filed during the several years following the completion of the comprehensive review. See "Critical Accounting Estimates" for further information.

Asbestos-related cash payments for 2014 were \$148 million, a decrease of \$10 million from 2013. Deferred amounts payable were approximately \$13 million and \$12 million at December 31, 2014 and 2013, respectively.

During 2014, the Company received approximately 1,470 new filings and disposed of approximately 1,870 claims. As of December 31, 2014, the number of asbestos-related claims pending against the Company was approximately 2,220. The Company anticipates that cash flows from operations and other sources will be sufficient to meet all asbestos-related obligations on a short-term and long-term basis. See Note 13 to the Consolidated Financial Statements for further information.

Pension Settlement Charges

During 2014, the Company recorded charges totaling \$65 million for pension settlements in the United States and the Netherlands.

See Note 10 to the Consolidated Financial Statements for additional information.

Non-income tax charge

In the fourth quarter of 2014, the Company recorded a \$69 million charge based on a ruling on a non-income tax assessment. See Note 13 to the Consolidated Financial Statements for additional information.

Gain on China Land Compensation

During 2012, the Company received \$85 million from the Chinese government as compensation for land in China that the Company was required to return to the government. The Company recorded a gain of \$61 million related to the disposal of this land.

Discontinued Operations

On October 26, 2010, the Venezuelan government, through Presidential Decree No. 7.751, expropriated the assets of Owens-Illinois de Venezuela and Fabrica de Vidrios Los Andes, C.A., two of the Company's subsidiaries in that country, which in effect constituted a taking of the going concerns of those companies.

Since the issuance of the decree, the Company cooperated with the Venezuelan government, as it is compelled to do under Venezuelan law, to provide for an orderly transition while ensuring the safety and well-being of the employees and the integrity of the production facilities. The Company engaged in negotiations with the Venezuelan government in relation to certain aspects of the expropriation, including the compensation payable by the government as a result of its expropriation. On September 26, 2011, the Company, having been unable to reach an agreement with the Venezuelan government regarding fair compensation, commenced an arbitration against Venezuela through the World Bank's International Centre for Settlement of Investment Disputes. The Company is unable at this stage to predict the amount, or timing of receipt, of compensation it will ultimately receive.

The loss from discontinued operations of \$23 million for the year ended December 31, 2014 includes a settlement of a dispute with a purchaser of a previously disposed business, as well as ongoing costs related to the Venezuela expropriation.

Capital Resources and Liquidity

As of December 31, 2014, the Company had cash and total debt of \$512 million and \$3.5 billion, respectively, compared to \$383 million and \$3.6 billion, respectively, as of December 31, 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 December 31, 2014 was \$483 million.

Current and Long-Term Debt

On May 19, 2011, the Company entered into the Secured Credit Agreement (the "Agreement"). At December 31, 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 December 31, 2014, the Company had unused credit of \$804 million available under the Agreement.

The Agreement contains various covenants that restrict, among other things and subject to certain exceptions, the ability of the Company to incur certain liens, make certain investments, become liable under contingent obligations in certain defined instances only, make restricted junior payments, make certain asset sales within guidelines and limits, make capital expenditures beyond a certain threshold, engage in material transactions with shareholders and affiliates, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain outstanding debt obligations.

The Agreement also contains one financial maintenance covenant, a Leverage Ratio, that requires the Company to not exceed a ratio calculated by dividing consolidated total debt, less cash and cash equivalents, by Credit Agreement EBITDA, as defined in the Agreement. The Leverage Ratio could restrict the ability of the Company to undertake additional financing or acquisitions to the extent that such financing or acquisitions would cause the Leverage Ratio to exceed the specified maximum of 4.0x.

Failure to comply with these covenants and restrictions could result in an event of default under the Agreement. In such an event, the Company could not request borrowings under the revolving facility, and all amounts outstanding under the Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Agreement and the lenders cause all of the outstanding debt obligations under the Agreement to become due and payable, this would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. A default or event of default under the Agreement, indentures or agreements governing other indebtedness could also lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross-default provisions.

The Leverage Ratio also determines pricing under the Agreement. The interest rate on borrowings under the Agreement is, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Agreement. These rates include a margin linked to the Leverage Ratio. The margins range from 1.25% to 2.00% for Eurocurrency Rate loans and from 0.25% to 1.00% for Base Rate loans. In addition, a facility fee is payable on the revolving credit facility commitments ranging from 0.25% to 0.50% per annum linked to the Leverage Ratio. The weighted average interest rate on borrowings outstanding under the Agreement at December 31, 2014 was 2.09%. As of December 31, 2014, the Company was in compliance with all covenants and restrictions in the Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Agreement will not be adversely affected by the covenants and restrictions.

Borrowings under the Agreement are secured by substantially all of the assets, excluding real estate, of the Company's domestic subsidiaries and certain foreign subsidiaries. Borrowings are also secured by a pledge of intercompany debt and equity in most of the Company's domestic subsidiaries and stock of certain foreign subsidiaries. All borrowings under the agreement are guaranteed by substantially all domestic subsidiaries of the Company for the term of the Agreement.

During December 2014, the Company issued senior notes with a face value of \$500 million that bear interest at 5.00% and are due January 15, 2022 (the "Senior Notes due 2022"). The Company also issued senior notes with a face value of \$300 million that bear interest at 5.375% and are due January 15, 2025 (the "Senior Notes due 2025," and together with the Senior Notes due 2022, the "New Senior Notes"). The New Senior Notes were issued via a private placement and are guaranteed by substantially all of the Company's domestic subsidiaries. The net proceeds from the New Senior Notes, after deducting debt issuance costs, totaled approximately \$790 million and were used to purchase \$611 million aggregate principal amount of the 2015 Exchangeable Senior Notes. Approximately \$18 million aggregate principal amount of the 2015 Exchangeable Senior Notes remain outstanding as of December 31, 2014. As part of the tender offer, the Company recorded \$20 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees in the fourth quarter of 2014.

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 as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Balance (included in short-term loans)	\$ 122	\$ 276
Weighted average interest rate	1.41%	1.41%

Cash Flows

Free cash flow was \$329 million for 2014 compared to \$339 million for 2013. The Company defines free cash flow as cash provided by continuing operating activities less additions to property, plant and equipment. 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 years ended December 31, 2014 and 2013 is calculated as follows (dollars in millions):

	<u>2014</u>	<u>2013</u>
Cash provided by continuing operating activities	\$ 698	\$ 700
Additions to property, plant and equipment	(369)	(361)
Free cash flow	<u>\$ 329</u>	<u>\$ 339</u>

Operating activities: Cash provided by continuing operating activities was \$698 million for 2014 compared to \$700 million for 2013. The largest year-over-year benefit to cash flows from continuing operating activities in 2014 was due to lower pension contributions than in the prior year. During 2014,

the Company contributed \$28 million to its defined benefit pension plans, compared with \$96 million in 2013. The decrease in pension plan contributions in the current year was due to the Company making no discretionary contributions in 2014, compared to \$65 million of discretionary contributions in 2013. In 2015, the Company expects that the total contributions for all plans will be approximately \$20 million. Lower year-over-year asbestos payments and cash paid for restructuring activities of \$10 million and \$20 million, respectively, also benefited cash provided by continuing operating activities in 2014 compared to 2013.

These items were partially offset by lower earnings and a \$52 million increase in cash paid for non-current assets and liabilities in 2014 compared to 2013. This increase was primarily due to cash paid for returnable packaging and deferred customer contracts.

Lower working capital levels benefited cash provided by continuing operating activities by \$117 million in 2014 compared to 2013, primarily due to an increase in accounts payable and a decrease in accounts receivable. Accounts receivable decreased in 2014 due to lower sales in the fourth quarter and better cash collections, partly due to an increase in accounts receivable factoring. The Company uses various factoring programs to sell certain receivables to financial institutions.

Investing activities: Cash utilized in investing activities was \$455 million for 2014 compared to \$402 million for 2013. Capital spending for property, plant and equipment during 2014 was \$369 million compared with \$361 million in the prior year.

Investing activities in 2014 also included \$114 million of cash paid for acquisitions, primarily related to the Company's investment in a joint venture with Constellation Brands, Inc. (NYSE: STZ) ("Constellation") to operate a glass container plant in Nava, Mexico. To help meet current and rising demand from Constellation's adjacent brewery, the joint venture plans to expand the plant from one furnace to four over the next four years. The Company expects to contribute approximately \$160 million for the joint venture's expansion plans.

Cash from investing activities in 2014 also included the net repayment of \$9 million of loans from noncontrolling partners in South America and Asia Pacific compared to \$16 million of loans made to noncontrolling partners in 2013. In 2013, the Company deconsolidated a subsidiary in Europe, resulting in a \$32 million use of cash related to the subsidiary's cash on hand at the time of deconsolidation.

Financing activities: Cash utilized in financing activities was \$70 million for 2014 compared to \$321 million for 2013. Financing activities in 2014 included additions to long-term debt of \$1,247 million, primarily related to the issuance of the \$500 million of Senior Notes due 2022 and the \$300 million of Senior Notes due 2025. Financing activities in 2014 also included the repayments of long-term debt of \$1,101 million, primarily related to the repurchase of \$626 million aggregate principal amount of the 2015 Exchangeable Notes, and repayments of short-term loans of \$139 million. The Company also paid \$11 million in 2014 for finance fees, primarily for note repurchase premiums associated with the repurchase of the 2015 Exchangeable Notes. Financing activities in 2013 included repayments of long-term debt of \$1,040 million, partially offset by additions to long-term debt of \$768 million, and additions to short-term loans of \$8 million.

The Company paid \$37 million and \$22 million in distributions to noncontrolling interests in 2014 and 2013, respectively. The Company also repurchased shares of its common stock for \$32 million in 2014 and \$33 million in 2013. The Company received \$5 million in 2014 from the exercise of stock options compared to \$25 million in 2013.

In the fourth quarter of 2014, the Board of Directors authorized a \$500 million share repurchase program through December 31, 2017. The Company expects to repurchase at least \$125 million in shares of the Company's common stock in 2015, with a majority of this activity occurring in the first half of 2015 via an accelerated share repurchase plan.

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.

Contractual Obligations and Off-Balance Sheet Arrangements

The following information summarizes the Company's significant contractual cash obligations at December 31, 2014 (dollars in millions).

	Payments due by period				
	Total	Less than one year	1 - 3 years	3 - 5 years	More than 5 years
Contractual cash obligations:					
Long-term debt	\$3,284	\$ 338	\$ 876	\$250	\$1,820
Capital lease obligations	63	24	12	9	18
Operating leases	245	54	88	61	42
Interest(1)	809	182	297	227	103
Purchase obligations(2)	1,510	718	551	158	83
Pension benefit plan contributions(3)	20	20			
Postretirement benefit plan benefit payments(1)	133	14	28	27	64
Equity affiliate investment obligation(4)	160	60	80	20	—
Total contractual cash obligations	<u>\$6,224</u>	<u>\$1,410</u>	<u>\$1,932</u>	<u>\$752</u>	<u>\$2,130</u>
	Amount of commitment expiration per period				
	Total	Less than one year	1 - 3 years	3 - 5 years	More than 5 years
Other commercial commitments:					
Standby letters of credit	\$96	\$96	—	—	—
Total commercial commitments	<u>\$96</u>	<u>\$96</u>	—	—	—

- (1) Amounts based on rates and assumptions at December 31, 2014.
- (2) The Company's purchase obligations consist principally of contracted amounts for energy and molds. In cases where variable prices are involved, current market prices have been used. The amount above does not include ordinary course of business purchase orders because the majority of such purchase orders may be canceled. The Company does not believe such purchase orders will adversely affect its liquidity position.
- (3) In order to maintain minimum funding requirements, the Company is required to make contributions to its defined benefit pension plans of approximately \$20 million in 2015. Future funding requirements for the Company's pension plans will depend largely on actual asset returns and future actuarial assumptions, such as discount rates, and can vary significantly.
- (4) During the fourth quarter of 2014, the Company entered into a joint venture agreement with Constellation Brands, Inc. to operate a glass container plant in Nava, Mexico. To help meet current and rising demand from Constellation's adjacent brewery, the joint venture plans to expand

the plant from one furnace to four over the next four years. The Company expects to contribute approximately \$160 million for the joint venture's expansion plans.

The Company is unable to make a reasonably reliable estimate as to when cash settlement with taxing authorities may occur for its unrecognized tax benefits. Therefore, the liability for unrecognized tax benefits is not included in the table above. See Note 11 to the Consolidated Financial Statements for additional information.

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 Consolidated Financial Statements, if applicable, where estimates and assumptions affect the Company's reported and expected financial results.

The Company believes that accounting for property, plant and equipment, impairment of long-lived assets, pension benefit plans, contingencies and litigation, and income taxes involves the more significant judgments and estimates used in the preparation of its consolidated financial statements.

Property, Plant and Equipment

The net carrying amount of property, plant and equipment ("PP&E") at December 31, 2014 totaled \$2.4 billion, representing 31% of total assets. Depreciation expense during 2014 totaled \$335 million, representing approximately 6% of total costs of goods sold. Given the significance of PP&E and associated depreciation to the Company's consolidated financial statements, the determinations of an asset's cost basis and its economic useful life are considered to be critical accounting estimates.

Cost Basis—PP&E is recorded at cost, which is generally objectively quantifiable when assets are purchased individually. However, when assets are purchased in groups, or as part of a business, costs assigned to PP&E are based on an estimate of fair value of each asset at the date of acquisition. These estimates are based on assumptions about asset condition, remaining useful life and market conditions, among others. The Company frequently employs expert appraisers to aid in allocating cost among assets purchased as a group.

Included in the cost basis of PP&E are those costs which substantially increase the useful lives or capacity of existing PP&E. Significant judgment is needed to determine which costs should be capitalized under these criteria and which costs should be expensed as a repair or maintenance expenditure. For example, the Company frequently incurs various costs related to its existing glass melting furnaces and forming machines and must make a determination of which costs, if any, to

capitalize. The Company relies on the experience and expertise of its operations and engineering staff to make reasonable and consistent judgments regarding increases in useful lives or capacity of PP&E.

Estimated Useful Life—PP&E is generally depreciated using the straight-line method, which deducts equal amounts of the cost of each asset from earnings each period over its estimated economic useful life. Economic useful life is the duration of time an asset is expected to be productively employed by the Company, which may be less than its physical life. Management's assumptions regarding the following factors, among others, affect the determination of estimated economic useful life: wear and tear, product and process obsolescence, technical standards, and changes in market demand.

The estimated economic useful life of an asset is monitored to determine its appropriateness, especially in light of changed business circumstances. For example, technological advances, excessive wear and tear, or changes in customers' requirements may result in a shorter estimated useful life than originally anticipated. In these cases, the Company depreciates the remaining net book value over the new estimated remaining life, thereby increasing depreciation expense per year on a prospective basis. Likewise, if the estimated useful life is increased, the adjustment to the useful life decreases depreciation expense per year on a prospective basis. Changes in economic useful life assumptions did not have a material impact on the Company's reported results in 2014, 2013 or 2012.

Impairment of Long-Lived Assets

Property, Plant and Equipment—The Company tests for impairment of PP&E whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. PP&E held for use in the Company's business is grouped for impairment testing at the lowest level for which cash flows can reasonably be identified, typically a segment or a component of a segment. The Company evaluates the recoverability of property, plant and equipment based on undiscounted projected cash flows, excluding interest and taxes. If an asset group is considered impaired, the impairment loss to be recognized is measured as the amount by which the asset group's carrying amount exceeds its fair value. PP&E held for sale is reported at the lower of carrying amount or fair value less cost to sell.

Impairment testing requires estimation of the fair value of PP&E based on the discounted value of projected future cash flows generated by the asset group. The assumptions underlying cash flow projections represent management's best estimates at the time of the impairment review. Factors that management must estimate include, among other things: industry and market conditions, sales volume and prices, production costs and inflation. Changes in key assumptions or actual conditions which differ from estimates could result in an impairment charge. The Company uses reasonable and supportable assumptions when performing impairment reviews and cannot predict the occurrence of future events and circumstances that could result in impairment charges.

Goodwill—Goodwill at December 31, 2014 totaled \$1.9 billion, representing 24% of total assets. Goodwill is tested for impairment annually as of October 1 (or more frequently if impairment indicators arise) using a two-step process. Step 1 compares the business enterprise value ("BEV") of each reporting unit with its carrying value. The BEV is computed based on estimated future cash flows, discounted at the weighted average cost of capital of a hypothetical third-party buyer. If the BEV is less than the carrying value for any reporting unit, then Step 2 must be performed. Step 2 compares the implied fair value of goodwill with the carrying amount of goodwill. Any excess of the carrying value of the goodwill over the implied fair value will be recorded as an impairment loss. The calculations of the BEV in Step 1 and the implied fair value of goodwill in Step 2 are based on significant unobservable inputs, such as price trends, customer demand, material costs, discount rates and asset replacement costs, and are classified as Level 3 in the fair value hierarchy.

Goodwill is tested for impairment at the reporting unit level, which is the operating segment or one level below the operating segment, also known as a component. Two or more components of an operating segment shall be aggregated into a single reporting unit if the components have similar economic characteristics, based on an assessment of various factors. The Company has determined that the Europe and North America segments are reporting units. The Company aggregated the components of the South America and Asia Pacific segments into single reporting units equal to the reportable segments. The aggregation of the components of these segments was based on their economic similarity as determined by the Company using a number of quantitative and qualitative factors, including gross margins, the manner in which the Company operates the business, the consistent nature of products, services, production processes, customers and methods of distribution, as well as the level of shared resources and assets between the components.

During the fourth quarter of 2014, the Company completed its annual impairment testing and determined that no impairment of goodwill existed. The testing performed as of October 1, 2014, indicated a significant excess of BEV over book value for each unit that has goodwill. If the Company's projected future cash flows were substantially lower, or if the assumed weighted average cost of capital was substantially higher, the testing performed as of October 1, 2014, may have indicated an impairment of one or more of these reporting units and, as a result, the related goodwill may also have been impaired. However, less significant changes in projected future cash flows or the assumed weighted average cost of capital would not have indicated an impairment. For example, if projected future cash flows had been decreased by 5%, or if the weighted average cost of capital had been increased by 5%, or both, the resulting lower BEV's would still have exceeded the book value of each of these reporting units.

The Company will monitor conditions throughout 2015 that might significantly affect the projections and variables used in the impairment test to determine if a review prior to October 1 may be appropriate. If the results of impairment testing confirm that a write down of goodwill is necessary, then the Company will record a charge in the fourth quarter of 2015, or earlier if appropriate. In the event the Company would be required to record a significant write down of goodwill, the charge would have a material adverse effect on reported results of operations and net worth.

Other Long-Lived Assets—Other long-lived assets include, among others, equity investments and repair parts inventories. The Company's equity investments are non-publicly traded ventures with other companies in businesses related to those of the Company. Equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. In the event that a decline in fair value of an investment occurs, and the decline in value is considered to be other than temporary, an impairment loss is recognized. Summarized financial information of equity affiliates is included in Note 5 to the Consolidated Financial Statements.

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

Pension Benefit Plans

Significant Estimates—The determination of pension obligations and the related pension expense or credits to operations involves significant estimates. The most significant estimates are the discount rate used to calculate the actuarial present value of benefit obligations and the expected long-term rate of return on plan assets. The Company uses discount rates based on yields of high quality fixed rate debt securities at the end of the year. At December 31, 2014, the weighted average discount rate was 4.05% and 3.58% for U.S. and non-U.S. plans, respectively. The Company uses an expected long-term rate of return on assets that is based on both past performance of the various plans' assets and estimated future performance of the assets. Due to the nature of the plans' assets and the volatility of debt and equity markets, actual returns may vary significantly from year to year. The Company refers to average historical returns over longer periods (up to 10 years) in determining its expected rates of return because short-term fluctuations in market values do not reflect the rates of return the Company expects to achieve based upon its long-term investing strategy. For purposes of determining pension charges and credits in 2015, the Company's estimated weighted average expected long-term rate of return on plan assets is 8.00% for U.S. plans and 7.23% for non-U.S. plans compared to 8.00% for U.S. plans and 6.01% for non-U.S. plans in 2014. The Company recorded pension expense from continuing operations of \$19 million, \$60 million, and \$54 million for the U.S. plans in 2014, 2013, and 2012, respectively, and \$24 million, \$41 million, and \$38 million for the non-U.S. plans in 2014, 2013, and 2012, respectively from its principal defined benefit pension plans. Depending on currency translation rates, the Company expects to record approximately \$30 million of total pension expense for the full year of 2015.

Future effects on reported results of operations depend on economic conditions and investment performance. For example, a one-half percentage point change in the actuarial assumption regarding either the expected return on assets or discount rates used to calculate plan liabilities would result in a change of approximately \$16 million in the pretax pension expense for the full year 2015.

Recognition of Funded Status—The Company recognizes the funded status of each pension benefit plan on the balance sheet. The funded status of each plan is measured as the difference between the fair value of plan assets and actuarially calculated benefit obligations as of the balance sheet date. Actuarial gains and losses are accumulated in Other Comprehensive Income and the portion of each plan that exceeds 10% of the greater of that plan's assets or projected benefit obligation is amortized to income on a straight-line basis over the average remaining service period of employees still accruing benefits or the expected life of participants not accruing benefits if all, or almost all, of the plan's participants are no longer accruing benefits.

Contingencies and Litigation

The Company believes that its ultimate asbestos-related liability (i.e., its indemnity payments or other claim disposition costs plus related legal fees) cannot reasonably be estimated. 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 inherent uncertainty of future disease incidence and claiming patterns against the Company, the significant expansion of the defendants that are now sued in this litigation, and the continuing changes in the extent to which these defendants participate in resolution of cases in which the Company is also a defendant. The Company continues to monitor trends that may affect its ultimate liability and continues to analyze the developments and variables affecting or likely to affect the resolution of pending and future asbestos claims against the Company.

The Company 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 that the addition of one year to the estimation period will usually result in an annual charge.

In the fourth quarter of 2014, the Company recorded a charge of \$135 million to increase its accrued liability for asbestos-related costs. This compares to the 2013 charge of \$145 million. The Company's accruals are based on a number of factors as described further in Note 13 to the Consolidated Financial Statements.

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.

Income Taxes

The Company accounts for income taxes as required by general accounting principles under which management judgment is required in determining income tax expense and the related balance sheet amounts. This judgment includes estimating and analyzing historical and projected future operating results, the reversal of taxable temporary differences, tax planning strategies, and the ultimate outcome of uncertain income tax positions. Actual income taxes paid may vary from estimates, depending upon changes in income tax laws, actual results of operations, and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed. Changes in the estimates and assumptions used for calculating income tax expense and potential differences in actual results from estimates could have a material impact on the Company's results of operations and financial condition.

Deferred tax assets and liabilities are recognized for the tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities measured using enacted tax rates and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are determined separately for each tax jurisdiction in which the Company conducts its operations or otherwise incurs taxable income or losses. A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets depends on the ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. The Company considers the following possible sources of taxable income when assessing the realization of deferred tax assets:

- future reversals of existing taxable temporary differences;
- future taxable income exclusive of reversing temporary differences and carryforwards;
- taxable income in prior carryback years; and
- tax planning strategies

The assessment regarding whether a valuation allowance is required or should be adjusted also considers all available positive and negative evidence, including but not limited to:

- nature, frequency, and severity of recent losses;

- duration of statutory carryforward periods;
- historical experience with tax attributes expiring unused; and
- near- and medium-term financial outlook.

The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. Accordingly, it is difficult to conclude a valuation allowance is not required when there is significant objective and verifiable negative evidence, such as cumulative losses in recent years. The Company uses the actual results for the last three years and current year anticipated results as the primary measure of cumulative losses in recent years.

The evaluation of deferred tax assets requires judgment in assessing the likely future tax consequences of events recognized in the financial statements or tax returns and future profitability. The recognition of deferred tax assets represents the Company's best estimate of those future events. Changes in the current estimates, due to unanticipated events or otherwise, could have a material effect on the Company's results of operations and financial condition.

In certain foreign jurisdictions, the Company's analysis indicates that it has cumulative losses in recent years. This is considered significant negative evidence which is objective and verifiable and, therefore, difficult to overcome. However, the cumulative loss position is not solely determinative and, accordingly, the Company considers all other available positive and negative evidence in its analysis. Based on its analysis, the Company has recorded a valuation allowance for the portion of deferred tax assets where based on the weight of available evidence it is unlikely to realize those deferred tax assets.

In the U.S., the Company has experienced cumulative losses in previous years and has recorded a valuation allowance against its deferred tax assets. As of December 31, 2014, however, 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, 2014 is \$927 million.

The utilization of tax attributes to offset taxable income reduces the overall level of deferred tax assets subject to a valuation allowance. Additionally, the Company's recorded effective tax rate is lower than the applicable statutory tax rate, due primarily to income earned in jurisdictions for which a valuation allowance is recorded. The effective tax rate will approach the statutory tax rate in periods after valuation allowances are released. In the period in which valuation allowances are released, the Company will record a material tax benefit, which could result in a negative effective tax rate.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from fluctuations in foreign currency exchange rates, changes in interest rates, and changes in commodity prices, principally energy and soda ash. The Company uses certain derivative instruments to mitigate a portion of the risk associated with changing foreign currency exchange rates. The Company also uses certain derivative instruments to mitigate a portion of the risk associated with fluctuating energy prices in its North American region. These instruments carry varying degrees of counterparty credit risk. To mitigate this risk, the Company has defined a financial counterparty policy that established criteria to select qualified counterparties based on credit ratings and CDC spreads. The policy also limits on the exposure with

individual counterparties. The Company monitors these exposures quarterly. The Company does not enter into derivative financial instruments for trading purposes.

Foreign Currency Exchange Rate Risk

Earnings of operations outside the United States

A substantial portion of the Company's operations are conducted by subsidiaries outside the U.S. The primary international markets served by the Company's subsidiaries are in Canada, Australia, China, South America (principally Colombia and Brazil), and Europe (principally Italy, France, the Netherlands, Germany, the United Kingdom, Spain and Poland). In general, revenues earned and costs incurred by the Company's major international operations are denominated in their respective local currencies. Consequently, the Company's reported financial results could be affected by factors such as changes in foreign currency exchange rates or highly inflationary economic conditions in the international markets in which the Company's subsidiaries operate. When the U.S. dollar strengthens against foreign currencies, the reported U.S. dollar value of local currency earnings generally decreases; when the U.S. dollar weakens against foreign currencies, the reported U.S. dollar value of local currency earnings generally increases. For the years ended December 31, 2014, 2013, and 2012, the Company did not have any significant foreign subsidiaries whose functional currency was the U.S. dollar.

Borrowings not denominated in the functional currency

Because the Company's subsidiaries operate within their local economic environment, the Company believes it is appropriate to finance those operations with borrowings denominated in the local currency to the extent practicable where debt financing is desirable or necessary. This strategy mitigates the risk of reported losses or gains in the event the foreign currency strengthens or weakens against the U.S. dollar. Considerations which influence the amount of such borrowings include long- and short-term business plans, tax implications, and the availability of borrowings with acceptable interest rates and terms.

Available excess funds of a subsidiary may be redeployed through intercompany loans to other subsidiaries for debt repayment, capital investment, or other cash requirements. The intercompany loans give rise to foreign currency exchange rate risk, which the Company mitigates through the use of forward exchange contracts that effectively swap the intercompany loan and related interest to the appropriate local currency.

The Company believes the near term exposure to foreign currency exchange rate risk of its foreign currency risk sensitive instruments was not material at December 31, 2014 and 2013.

Interest Rate Risk

The Company's interest expense is most sensitive to changes in the general level of interest rates applicable to the term loans under its Secured Credit Agreement (see Note 12 to the Consolidated Financial Statements for further information). The Company's interest rate risk management objective is to limit the impact of interest rate changes on net income and cash flow, while minimizing interest payments and expense. To achieve this objective, the Company regularly evaluates its mix of fixed and floating-rate debt, and, from time to time, may enter into interest rate swap agreements.

The following table provides information about the Company's interest rate sensitivity related to its significant debt obligations at December 31, 2014. The table presents principal cash flows and related weighted-average interest rates by expected maturity date.

(dollars in millions)	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>There- after</u>	<u>Total</u>	<u>Fair Value at 12/31/2014</u>
Long-term debt at variable rate:								
Principal by expected maturity	\$ 319	\$ 274	\$ 2	\$ 2	\$ 2	\$ 4	\$ 603	\$ 603
Avg. principal outstanding	\$ 443	\$ 146	\$ 8	\$ 6	\$ 5	\$ 2		
Avg. interest rate	2.09%	2.09%	2.09%	2.09%	2.09%	2.09%		
Long-term debt at fixed rate:								
Principal by expected maturity	\$ 42	\$ 609	\$ 2	\$ 252	\$ 2	\$1,837	\$2,744	\$2,961
Avg. principal outstanding	\$2,711	\$2,379	\$2,089	\$1,954	\$1,839	\$1,687		
Avg. interest rate	6.21%	6.06%	5.88%	5.74%	5.62%	5.62%		

The Company believes the near term exposure to interest rate risk of its debt obligations has not changed materially since December 31, 2014.

In addition, the determination of pension obligations and the related pension expense or credits to operations involves significant estimates. Future funding requirements for the Company's pension plans will depend largely on actual asset returns and future actuarial assumptions, such as discount rates, and can vary significantly. The discount rate is a significant estimate that is used to calculate the actuarial present value of benefit obligations and is based on yields of high quality fixed rate debt securities at the end of the year. For example, a one-half percentage point change in the actuarial assumption regarding discount rates used to calculate plan liabilities would result in a change of approximately \$16 million in the pretax pension expense for the full year 2015.

Commodity Price Risk

The Company has exposure to commodity price risk, principally related to energy. In North America, the Company enters into commodity forward contracts related to forecasted natural gas requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. The Company continually evaluates the natural gas market and related price risk and periodically enters into commodity forward contracts in order to hedge a portion of its usage requirements. The majority of the 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. At December 31, 2014, the Company had entered into commodity forward contracts covering approximately 450,000 MM BTUs, primarily related to customer requests to lock the price of natural gas. In Europe, the Company enters into fixed price contracts for a significant amount of its energy requirements. These contracts typically have terms of 12 months or less.

The Company believes the near term exposure to commodity price risk of its commodity forward contracts was not material at December 31, 2014.

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,” “intend,” “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 this Annual Report on Form 10-K for the year ended December 31, 2014 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Share Owners of
Owens-Illinois, Inc.

We have audited the accompanying consolidated balance sheets of Owens-Illinois, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of results of operations, comprehensive income, share owners' equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Owens-Illinois, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Owens-Illinois, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 10, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Toledo, Ohio
February 10, 2015

Owens-Illinois, Inc.
CONSOLIDATED RESULTS OF OPERATIONS
Dollars in millions, except per share amounts

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales	\$ 6,784	\$ 6,967	\$ 7,000
Cost of goods sold	<u>(5,531)</u>	<u>(5,636)</u>	<u>(5,626)</u>
Gross profit	1,253	1,331	1,374
Selling and administrative expense	(523)	(506)	(555)
Research, development and engineering expense	(63)	(62)	(62)
Interest expense, net	(230)	(229)	(239)
Equity earnings	64	67	64
Other expense, net	<u>(283)</u>	<u>(266)</u>	<u>(254)</u>
Earnings from continuing operations before income taxes	218	335	328
Provision for income taxes	<u>(92)</u>	<u>(120)</u>	<u>(108)</u>
Earnings from continuing operations	126	215	220
Loss from discontinued operations	<u>(23)</u>	<u>(18)</u>	<u>(2)</u>
Net earnings	103	197	218
Net (earnings) attributable to noncontrolling interests	<u>(28)</u>	<u>(13)</u>	<u>(34)</u>
Net earnings attributable to the Company	<u>\$ 75</u>	<u>\$ 184</u>	<u>\$ 184</u>
Amounts attributable to the Company:			
Earnings from continuing operations	\$ 98	\$ 202	\$ 186
Loss from discontinued operations	<u>(23)</u>	<u>(18)</u>	<u>(2)</u>
Net earnings	<u>\$ 75</u>	<u>\$ 184</u>	<u>\$ 184</u>
Basic earnings per share:			
Earnings from continuing operations	\$ 0.60	\$ 1.22	\$ 1.13
Loss from discontinued operations	<u>(0.14)</u>	<u>(0.11)</u>	<u>(0.01)</u>
Net earnings	<u>\$ 0.46</u>	<u>\$ 1.11</u>	<u>\$ 1.12</u>
Diluted earnings per share:			
Earnings from continuing operations	\$ 0.59	\$ 1.22	\$ 1.12
Loss from discontinued operations	<u>(0.14)</u>	<u>(0.11)</u>	<u>(0.01)</u>
Net earnings	<u>\$ 0.45</u>	<u>\$ 1.11</u>	<u>\$ 1.11</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Illinois, Inc.
CONSOLIDATED COMPREHENSIVE INCOME
Dollars in millions

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net earnings	\$ 103	\$ 197	\$ 218
Other comprehensive income (loss):			
Foreign currency translation adjustments	(305)	(232)	(26)
Pension and other postretirement benefit adjustments, net of tax	(90)	609	(156)
Change in fair value of derivative instruments	1	2	5
Other comprehensive income (loss)	<u>(394)</u>	<u>379</u>	<u>(177)</u>
Total comprehensive income (loss)	(291)	576	41
Comprehensive income attributable to noncontrolling interests	<u>(7)</u>	<u>(7)</u>	<u>(42)</u>
Comprehensive income (loss) attributable to the Company	<u><u>\$(298)</u></u>	<u><u>\$ 569</u></u>	<u><u>\$ (1)</u></u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Illinois, Inc.
CONSOLIDATED BALANCE SHEETS
Dollars in millions

<u>December 31,</u>	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash, including time deposits of \$104 (\$61 in 2013)	\$ 512	\$ 383
Receivables	744	943
Inventories	1,035	1,117
Prepaid expenses	80	107
Total current assets	<u>2,371</u>	<u>2,550</u>
Other assets:		
Equity investments	427	315
Pension assets	22	68
Other assets	700	795
Goodwill	<u>1,893</u>	<u>2,059</u>
Total other assets	<u>3,042</u>	<u>3,237</u>
Property, plant and equipment:		
Land, at cost	226	254
Buildings and equipment, at cost:		
Buildings and building equipment	1,097	1,197
Factory machinery and equipment	4,302	4,651
Transportation, office and miscellaneous equipment	105	123
Construction in progress	<u>161</u>	<u>213</u>
	5,891	6,438
Less accumulated depreciation	<u>3,446</u>	<u>3,806</u>
Net property, plant and equipment	<u>2,445</u>	<u>2,632</u>
Total assets	<u>\$7,858</u>	<u>\$8,419</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Illinois, Inc.
CONSOLIDATED BALANCE SHEETS (Continued)
Dollars in millions, except per share amounts

<u>December 31,</u>	<u>2014</u>	<u>2013</u>
Liabilities and Share Owners' Equity		
Current liabilities:		
Accounts payable	\$ 1,137	\$ 1,144
Salaries and wages	145	169
U.S. and foreign income taxes	43	38
Current portion of asbestos-related liabilities	143	150
Other accrued liabilities	372	431
Short-term loans	127	306
Long-term debt due within one year	361	16
Total current liabilities	2,328	2,254
Long-term debt	2,972	3,245
Deferred taxes	121	196
Pension benefits	465	350
Nonpension postretirement benefits	178	187
Other liabilities	227	286
Asbestos-related liabilities	292	298
Commitments and contingencies		
Share owners' equity:		
Share owners' equity of the Company:		
Common stock, par value \$.01 per share, 250,000,000 shares authorized, 183,915,370 and 183,500,295 shares issued (including treasury shares), respectively	2	2
Capital in excess of par value	3,066	3,040
Treasury stock, at cost, 19,718,055 and 18,785,613 shares, respectively	(480)	(454)
Retained earnings (loss)	64	(11)
Accumulated other comprehensive loss	(1,494)	(1,121)
Total share owners' equity of the Company	1,158	1,456
Noncontrolling interests	117	147
Total share owners' equity	1,275	1,603
Total liabilities and share owners' equity	<u>\$ 7,858</u>	<u>\$ 8,419</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Illinois, Inc
CONSOLIDATED SHARE OWNERS' EQUITY
Dollars in millions

	Share Owners' Equity of the Company						Total Share Owners' Equity
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings (Loss)	Accumulated Other Comprehensive Loss	Non-controlling Interests	
Balance on January 1, 2012	2	2,991	(405)	(379)	(1,321)	153	1,041
Issuance of common stock (0.8 million shares)		3					3
Reissuance of common stock (0.3 million shares)			7				7
Treasury shares purchased (1.4 million shares)			(27)				(27)
Stock compensation		11					11
Net earnings				184		34	218
Other comprehensive income (loss)					(185)	8	(177)
Distributions to noncontrolling interests						(24)	(24)
Contribution from noncontrolling interests						3	3
Balance on December 31, 2012	<u>2</u>	<u>3,005</u>	<u>(425)</u>	<u>(195)</u>	<u>(1,506)</u>	<u>174</u>	<u>1,055</u>
Issuance of common stock (1.4 million shares)		25					25
Reissuance of common stock (0.2 million shares)			4				4
Treasury shares purchased (1.1 million shares)			(33)				(33)
Repurchase of exchangeable notes		(1)					(1)
Stock compensation		11					11
Net earnings				184		13	197
Other comprehensive income (loss)					385	(6)	379
Distributions to noncontrolling interests						(22)	(22)
Contribution from noncontrolling interests						5	5
Deconsolidation of subsidiary						(17)	(17)
Balance on December 31, 2013	<u>\$2</u>	<u>\$3,040</u>	<u>\$(454)</u>	<u>\$ (11)</u>	<u>\$(1,121)</u>	<u>\$147</u>	<u>\$1,603</u>
Issuance of common stock (0.3 million shares)		5					5
Reissuance of common stock (0.2 million shares)			6				6
Treasury shares purchased (1.1 million shares)			(32)				(32)
Stock compensation		21					21
Net earnings				75		28	103
Other comprehensive income (loss)					(373)	(21)	(394)
Distributions to noncontrolling interests						(37)	(37)
Balance on December 31, 2014	<u><u>\$2</u></u>	<u><u>\$3,066</u></u>	<u><u>\$(480)</u></u>	<u><u>\$ 64</u></u>	<u><u>\$(1,494)</u></u>	<u><u>\$117</u></u>	<u><u>\$1,275</u></u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Illinois, Inc.
CONSOLIDATED CASH FLOWS
Dollars in millions

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating activities:			
Net earnings	\$ 103	\$ 197	\$ 218
Loss from discontinued operations	23	18	2
Non-cash charges (credits):			
Depreciation	335	350	378
Amortization of intangibles and other deferred items	83	47	34
Amortization of finance fees and debt discount	30	32	33
Deferred tax benefit	(18)	(3)	(5)
Pension expense	43	101	92
Restructuring, asset impairment and related charges	76	119	168
Pension settlement charges	65		
Non-income tax charge	69		
Gain on China land compensation			(61)
Future asbestos-related costs	135	145	155
Other	73	52	8
Pension contributions	(28)	(96)	(219)
Asbestos-related payments	(148)	(158)	(165)
Cash paid for restructuring activities	(58)	(78)	(66)
Change in non-current assets and liabilities	(202)	(150)	(73)
Change in components of working capital	117	124	81
	<hr/>	<hr/>	<hr/>
Cash provided by continuing operating activities	698	700	580
Cash utilized in discontinued operating activities	(23)	(18)	(5)
	<hr/>	<hr/>	<hr/>
Total cash provided by operating activities	675	682	575
Investing activities:			
Additions to property, plant and equipment	(369)	(361)	(290)
Acquisitions, net of cash acquired	(114)	(4)	(5)
Net cash proceeds related to sale of assets and other	19	11	95
Net activity for non-controlling partner loans	9	(16)	(21)
Deconsolidation of subsidiary		(32)	
	<hr/>	<hr/>	<hr/>
Cash utilized in investing activities	(455)	(402)	(221)
Financing activities:			
Additions to long-term debt	1,247	768	119
Repayments of long-term debt	(1,101)	(1,040)	(402)
Increase (decrease) in short-term loans	(139)	8	(38)
Net foreign exchange derivative activity	(2)	(19)	27
Payment of finance fees	(11)	(7)	(1)
Distributions to noncontrolling interests	(37)	(22)	(24)
Treasury shares purchased	(32)	(33)	(27)
Contribution from noncontrolling interests		5	3
Issuance of common stock and other	5	19	4
	<hr/>	<hr/>	<hr/>
Cash utilized in financing activities	(70)	(321)	(339)
Effect of exchange rate fluctuations on cash	(21)	(7)	16
	<hr/>	<hr/>	<hr/>
Increase (decrease) in cash	129	(48)	31
Cash at beginning of year	383	431	400
	<hr/>	<hr/>	<hr/>
Cash at end of year	<u>\$ 512</u>	<u>\$ 383</u>	<u>\$ 431</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tabular data dollars in millions, except per share amounts

1. Significant Accounting Policies

Basis of Consolidated Statements The consolidated financial statements of Owens-Illinois, Inc. (the “Company”) include the accounts of its subsidiaries. Newly acquired subsidiaries have been included in the consolidated financial statements from dates of acquisition.

The Company uses the equity method of accounting for investments in which it has a significant ownership interest, generally 20% to 50%. Other investments are accounted for at cost. The Company monitors other than temporary declines in fair value and records reductions in carrying values when appropriate.

Nature of Operations The Company is a leading manufacturer of glass container products. The Company’s principal product lines are glass containers for the food and beverage industries. The Company has glass container operations located in 21 countries. The principal markets and operations for the Company’s products are in Europe, North America, South America and Asia Pacific.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates, at which time the Company would revise its estimates accordingly.

Foreign Currency Translation The assets and liabilities of non-U.S. subsidiaries are translated into U.S. dollars at year-end exchange rates. Any related translation adjustments are recorded in accumulated other comprehensive income in share owners’ equity.

Revenue Recognition The Company recognizes sales, net of estimated discounts and allowances, when the title to the products and risk of loss are transferred to customers. Provisions for rebates to customers are provided in the same period that the related sales are recorded.

Shipping and Handling Costs Shipping and handling costs are included with cost of goods sold in the Consolidated Results of Operations.

Stock-Based Compensation The Company has various stock-based compensation plans consisting of stock option grants and restricted share awards. Costs resulting from all share-based compensation plans are required to be recognized in the financial statements. A public entity is required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the required service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the required service.

Cash The Company defines “cash” as cash and time deposits with maturities of three months or less when purchased. Outstanding checks in excess of funds on deposit are included in accounts payable.

Accounts Receivable Receivables are stated at amounts estimated by management to be the net realizable value. The Company charges off accounts receivable when it becomes apparent based upon age or customer circumstances that amounts will not be collected.

Allowance for Doubtful Accounts The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

1. Significant Accounting Policies (Continued)

doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk.

Inventory Valuation Inventories are valued at the lower of average costs or market.

Goodwill Goodwill represents the excess of cost over fair value of net assets of businesses acquired. Goodwill is evaluated annually, as of October 1, for impairment or more frequently if an impairment indicator exists.

Intangible Assets and Other Long-Lived Assets Intangible assets are amortized over the expected useful life of the asset. Amortization expense directly attributed to the manufacturing of the Company's products is included in cost of goods sold. Amortization expense related to non-manufacturing activities is included in selling and administrative and other. The Company evaluates the recoverability of intangible assets and other long-lived assets based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

Property, Plant and Equipment Property, plant and equipment ("PP&E") is carried at cost and includes expenditures for new facilities and equipment and those costs which substantially increase the useful lives or capacity of existing PP&E. In general, depreciation is computed using the straight-line method and recorded over the estimated useful life of the asset. Factory machinery and equipment is depreciated over periods ranging from 5 to 25 years with the majority of such assets (principally glass-melting furnaces and forming machines) depreciated over 7 to 15 years. Buildings and building equipment are depreciated over periods ranging from 10 to 50 years. Depreciation expense directly attributed to the manufacturing of the Company's products is included in cost of goods sold. Depreciation expense related to non-manufacturing activities is included in selling and administrative. Depreciation expense includes the amortization of assets recorded under capital leases. Maintenance and repairs are expensed as incurred. Costs assigned to PP&E of acquired businesses are based on estimated fair values at the date of acquisition. The Company evaluates the recoverability of PP&E based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

Derivative Instruments The Company uses forward exchange contracts, options and commodity forward contracts to manage risks generally associated with foreign exchange rate and commodity market volatility. Derivative financial instruments are included on the balance sheet at fair value. When appropriate, derivative instruments are designated as and are effective as hedges, in accordance with accounting principles generally accepted in the United States. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. The Company does not enter into derivative financial instruments for trading purposes and is not a party to leveraged derivatives. Cash flows from short-term forward exchange contracts not designated as hedges are classified as a financing activity. Cash flows of commodity forward contracts are classified as operating activities.

Fair Value Measurements Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Generally accepted accounting principles

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

1. Significant Accounting Policies (Continued)

defines a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs for which there is little or no market data, which requires the Company to develop assumptions.

The carrying amounts reported for cash and short-term loans approximate fair value. In addition, carrying amounts approximate fair value for certain long-term debt obligations subject to frequently redetermined interest rates. Fair values for the Company's significant fixed rate debt obligations are generally based on published market quotations.

The Company's derivative assets and liabilities 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.

Reclassifications Certain reclassifications of prior years' data have been made to conform to the current year presentation.

New Accounting Standards 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 will become 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.

2. 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 manufacturing, global engineering, and certain 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

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

2. Segment Information (Continued)

considers not representative of ongoing operations as well as certain retained corporate costs. The Company's management uses segment operating profit, in combination with selected cash flow information, to evaluate performance and to allocate resources. Segment operating profit for 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 regarding the Company's reportable segments is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales:			
Europe	\$2,794	\$2,787	\$2,717
North America	2,003	2,002	1,966
South America	1,159	1,186	1,252
Asia Pacific	<u>793</u>	<u>966</u>	<u>1,028</u>
Reportable segment totals	6,749	6,941	6,963
Other	<u>35</u>	<u>26</u>	<u>37</u>
Net sales	<u>\$6,784</u>	<u>\$6,967</u>	<u>\$7,000</u>
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Segment operating profit:			
Europe	\$ 353	\$ 305	\$ 307
North America	240	307	288
South America	227	204	227
Asia Pacific	<u>88</u>	<u>131</u>	<u>113</u>
Reportable segment totals	908	947	935
Items excluded from segment operating profit:			
Retained corporate costs and other	(100)	(119)	(106)
Restructuring, asset impairment and other charges	(91)	(119)	(168)
Charge for asbestos-related costs	(135)	(145)	(155)
Pension settlement charges	(65)		
Non-income tax charge	(69)		
Gain on China land compensation			61
Interest expense, net	<u>(230)</u>	<u>(229)</u>	<u>(239)</u>
Earnings from continuing operations before income taxes . . .	<u>\$ 218</u>	<u>\$ 335</u>	<u>\$ 328</u>

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

2. Segment Information (Continued)

	Europe	North America	South America	Asia Pacific	Reportable Segment Totals	Retained Corp Costs and Other	Consolidated Totals
Total assets:							
2014	\$3,223	\$1,971	\$1,300	\$1,018	\$7,512	\$346	\$7,858
2013	3,509	1,995	1,467	1,150	8,121	298	8,419
2012	3,362	1,994	1,655	1,349	8,360	238	8,598
Equity investments:							
2014	\$ 81	\$ 24	\$ —	\$ 153	\$ 258	\$169	\$ 427
2013	84	25		155	264	51	315
2012	63	25		165	253	41	294
Equity earnings:							
2014	\$ 19	\$ 17	\$ —	\$ 4	\$ 40	\$ 24	\$ 64
2013	17	16		10	43	24	67
2012	15	16		5	36	28	64
Capital expenditures:							
2014	\$ 188	\$ 89	\$ 55	\$ 34	\$ 366	\$ 3	\$ 369
2013	130	100	80	36	346	15	361
2012	87	68	75	49	279	11	290
Depreciation and amortization expense:							
2014	\$ 140	\$ 131	\$ 79	\$ 53	\$ 403	\$ 15	\$ 418
2013	139	110	72	62	383	14	397
2012	150	107	70	70	397	15	412

The Company's net property, plant and equipment by geographic segment are as follows:

	U.S.	Non-U.S.	Total
2014	\$713	\$1,732	\$2,445
2013	686	1,946	2,632
2012	663	2,106	2,769

The Company's net sales by geographic segment are as follows:

	U.S.	Non-U.S.	Total
2014	\$1,852	\$4,932	\$6,784
2013	1,809	5,158	6,967
2012	1,780	5,220	7,000

Operations outside the U.S. that accounted for more than 10% of consolidated net sales from continuing operations were in France (2014—11%, 2013—11%, 2012—11%).

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

3. Receivables

Receivables consist of the following at December 31, 2014 and 2013:

	2014	2013
Trade accounts receivable	\$583	\$757
Less: allowances for doubtful accounts and discounts	34	39
Net trade receivables	549	718
Other receivables	195	225
	\$744	\$943

The Company uses various factoring programs to sell certain receivables to financial institutions as part of managing its cash flows. At December 31, 2014 and 2013, the amount of receivables sold by the Company was \$276 million and \$192 million, respectively. Any continuing involvement with the sold receivables is immaterial.

4. Inventories

Major classes of inventory are as follows:

	2014	2013
Finished goods	\$ 884	\$ 958
Raw materials	110	113
Operating supplies	41	46
	\$1,035	\$1,117

5. Equity Investments

At December 31, 2014 the Company's ownership percentage in affiliates include:

Affiliates	O-I Ownership Percentage	Business Type
BJC O-I Glass Pte. Ltd.	50%	Glass container manufacturer
CO Vidrieria SARL	50%	Glass container manufacturer
Rocky Mountain Bottle Company	50%	Glass container manufacturer
Tata Chemical (Soda Ash) Partners	25%	Soda ash supplier
Vetriere Meridionali SpA ("VeMe")	50%	Glass container manufacturer
Vetri Speciali SpA	50%	Speciality glass manufacturer

During the fourth quarter of 2014, the Company entered into a joint venture agreement with Constellation Brands, Inc. to operate a glass container plant in Nava, Mexico. The Company has determined the accounting for the investment and returns as an equity joint venture.

During the fourth quarter of 2013, changes were made to the VeMe joint venture agreement that resulted in the Company relinquishing control of the joint venture and, therefore, deconsolidating the entity. No gain or loss was recognized related to the deconsolidation as the fair value of the entity was

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

5. Equity Investments (Continued)

equal to the carrying amount of the entity's assets and liabilities. The fair value, which the Company classified as Level 3 in the fair value hierarchy, was computed using a discounted cash flow analysis based on projected future cash flows of the joint venture.

Summarized information pertaining to the Company's equity associates follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Equity in earnings:			
Non-U.S.	\$23	\$27	\$20
U.S.	<u>41</u>	<u>40</u>	<u>44</u>
Total	<u>\$64</u>	<u>\$67</u>	<u>\$64</u>
Dividends received	<u>\$54</u>	<u>\$67</u>	<u>\$50</u>

Summarized combined financial information for equity associates is as follows (unaudited):

	<u>2014</u>	<u>2013</u>	
At end of year:			
Current assets	\$ 479	\$419	
Non-current assets	<u>718</u>	<u>528</u>	
Total assets	1,197	947	
Current liabilities	217	224	
Other liabilities and deferred items	<u>191</u>	<u>193</u>	
Total liabilities and deferred items	<u>408</u>	<u>417</u>	
Net assets	<u>\$ 789</u>	<u>\$530</u>	
For the year:	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales	<u>\$752</u>	<u>\$699</u>	<u>\$658</u>
Gross profit	<u>\$198</u>	<u>\$185</u>	<u>\$191</u>
Net earnings	<u>\$150</u>	<u>\$149</u>	<u>\$143</u>

The Company purchased approximately \$188 million and \$133 million from equity affiliates in 2014 and 2013, respectively, and owed approximately \$79 million and \$42 million to equity affiliates as of December 31, 2014 and 2013, respectively.

There is a difference of approximately \$9 million as of December 31, 2014 between the amount at which certain investments are carried and the amount of underlying equity in net assets. The portion of the difference related to inventory or amortizable assets is amortized as a reduction of the equity earnings. The remaining difference is considered goodwill.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

6. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2014, 2013 and 2012 are as follows:

	<u>Europe</u>	<u>North America</u>	<u>South America</u>	<u>Other</u>	<u>Total</u>
Balance as of January 1, 2012	983	740	354	5	2,082
Translation effects	23	3	(29)	—	(3)
Balance as of December 31, 2012	1,006	743	325	5	2,079
Translation effects	38	(9)	(49)	—	(20)
Balance as of December 31, 2013	1,044	734	276	5	2,059
Translation effects	(118)	(11)	(37)	—	(166)
Balance as of December 31, 2014	<u>\$ 926</u>	<u>\$723</u>	<u>\$239</u>	<u>\$5</u>	<u>\$1,893</u>

Goodwill for the Asia Pacific segment is \$0 and net of accumulated impairment losses of \$1,135 million as of December 31, 2014, 2013 and 2012.

Goodwill is tested for impairment annually as of October 1 (or more frequently if impairment indicators arise) using a two-step process. Step 1 compares the business enterprise value (“BEV”) of each reporting unit with its carrying value. The BEV is computed based on estimated future cash flows, discounted at the weighted average cost of capital of a hypothetical third-party buyer. If the BEV is less than the carrying value for any reporting unit, then Step 2 must be performed. Step 2 compares the implied fair value of goodwill with the carrying amount of goodwill. Any excess of the carrying value of the goodwill over the implied fair value will be recorded as an impairment loss. The calculations of the BEV in Step 1 and the implied fair value of goodwill in Step 2 are based on significant unobservable inputs, such as price trends, customer demand, material costs, discount rates and asset replacement costs, and are classified as Level 3 in the fair value hierarchy.

During the fourth quarter of 2014, the Company completed its annual impairment testing and determined that no impairment existed.

7. Other Assets

Other assets consist of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Deferred tax assets	\$203	\$237
Deferred returnable packaging costs	126	124
Repair part inventories	107	116
Capitalized software	101	114
Non-income tax receivable	58	70
Deferred finance fees	21	33
Intangibles	18	23
Other	66	78
	<u>\$700</u>	<u>\$795</u>

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

7. Other Assets (Continued)

Capitalized software includes costs related to the acquisition and development of internal-use software. These costs are amortized over the estimated useful life of the software. Amortization expense for capitalized software was \$17 million, \$14 million and \$15 million for 2014, 2013 and 2012, respectively. Estimated amortization related to capitalized software through 2019 is as follows: 2015, \$17 million; 2016, \$14 million; 2017, \$13 million; 2018, \$13 million; and 2019, \$11 million.

8. 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 value 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 Forward Contracts Designated as Cash Flow Hedges

In North America, the Company enters into commodity forward contracts related to forecasted natural gas requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. The Company continually evaluates the natural gas market and related price risk and periodically enters into commodity forward contracts in order to hedge a portion of its usage requirements. The majority of the 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. At December 31, 2014 and 2013, the Company had entered into commodity forward contracts covering approximately 450,000 MM BTUs and 5,400,000 MM BTUs, respectively, primarily related to customer requests to lock the price of natural gas.

The Company accounts for the above forward contracts as cash flow hedges at December 31, 2014 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 loss of less than \$1 million at December 31, 2014 and an unrecognized gain of \$1 million at December 31, 2013 related to the commodity forward contracts were included in Accumulated OCI, and will be reclassified into earnings over the next twelve to twenty-four 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 year ended December 31, 2014 and 2013 was not material.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

8. Derivative Instruments (Continued)

The effect of the commodity forward contracts on the results of operations for the years ended December 31, 2014, 2013 and 2012 is as follows:

Amount of Gain (Loss) Recognized in OCI on Commodity Forward Contracts (Effective Portion)			Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (reported in cost of goods sold) (Effective Portion)		
2014	2013	2012	2014	2013	2012
\$3	\$1	\$(3)	\$2	\$(1)	\$(8)

Foreign Exchange Derivative Contracts not Designated as Hedging Instruments

The Company 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. The Company may also use forward exchange agreements to offset the foreign currency risk for receivables and payables, including intercompany receivables, payables and loans, 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 December 31, 2014 and 2013, the Company had outstanding forward exchange and option agreements denominated in various currencies covering the equivalent of approximately \$524 million and \$550 million, respectively, related primarily to intercompany transactions and loans.

The effect of the foreign exchange derivative contracts on the results of operations for the years ended December 31, 2014, 2013 and 2012 is as follows:

Location of Gain (Loss) Recognized in Income on Foreign Exchange Contracts	Amount of Gain (Loss) Recognized in Income on Foreign Exchange Contracts		
	2014	2013	2012
Other expense	\$(8)	\$(28)	\$6

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) deposits, receivables, and other assets if the instrument has a positive fair value and maturity after one year, and (c) other accrued liabilities or other liabilities (current) if the instrument has a negative

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

8. Derivative Instruments (Continued)

fair value and maturity within one year. The following table shows the amount and classification (as noted above) of the Company's derivatives as of December 31, 2014 and 2013:

	Balance Sheet Location	Fair Value	
		2014	2013
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Commodity forward contracts	a	\$—	\$1
Derivatives not designated as hedging instruments:			
Foreign exchange derivative contracts	a	10	3
Total asset derivatives		<u>\$10</u>	<u>\$4</u>
Derivatives not designated as hedging instruments:			
Foreign exchange derivative contracts	c	4	7
Total liability derivatives		<u>\$ 4</u>	<u>\$7</u>

9. Restructuring Accruals, Asset Impairments and Other Costs Related to Closed Facilities

The Company continually reviews its manufacturing footprint and operating cost structure and may decide to close operations or reduce headcount to gain efficiencies, integrate acquired operations and reduce future expenses. The Company incurs costs associated with these actions including employee severance and benefits, other exit costs such as those related to contract terminations, and asset impairment charges. The Company also may incur other costs related to closed facilities including environmental remediation, clean up, dismantling and preparation for sale or other disposition.

The Company accounts for restructuring and other costs under applicable provisions of generally accepted accounting principles. Charges for employee severance and related benefits are generally accrued based on contractual arrangements with employees or their representatives. Other exit costs are accrued based on the estimated cost to settle related contractual arrangements. Estimated environmental remediation costs are accrued when specific claims have been received or are probable of being received.

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 as Level 3 in the fair value hierarchy as set forth in the general accounting principles for fair value measurements.

When a decision is made to take these actions, the Company manages and accounts for them programmatically apart from the on-going operations of the business. Information related to major programs (as in the case of the European Asset Optimization and Asia Pacific Restructuring programs below) are presented separately. Minor initiatives are presented on a combined basis as Other Restructuring Actions. When charges related to major programs are completed, remaining accrual balances are classified with Other Restructuring Actions.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

**9. Restructuring Accruals, Asset Impairments and Other Costs Related to Closed Facilities
(Continued)**

European Asset Optimization

Since 2011, the Company has implemented the European Asset Optimization program to increase the efficiency and capability of its European operations and to better align its European manufacturing footprint with market and customer needs. This program involves making additional investments in certain facilities and addressing assets with higher cost structures. As part of this program, the Company recorded charges of \$1 million in 2014, \$16 million in 2013 and \$86 million in 2012 for employee costs, write-down of assets, and environmental remediation related to decisions to close furnaces and manufacturing facilities in Europe. The Company expects to execute further actions under this program in phases over the next several years.

Asia Pacific Restructuring

Since 2011, the Company has implemented a restructuring plan in its Asia Pacific segment, primarily related to aligning its supply base with lower demand in the region. As part of this plan, the Company recorded charges of \$73 million, \$49 million and \$47 million for the years ended 2014, 2013 and 2012, respectively, for employee costs, write-down of assets, and pension charges related to furnace closures and additional restructuring activities.

Other Restructuring Actions

The Company took certain other restructuring actions and recorded charges in 2014 of \$2 million for employee costs related to global headcount reduction initiatives. In 2013, there were charges of \$16 million for employee costs related to the closure of flat glass operations in South America, \$13 million for employee costs related to global headcount reduction initiatives, and \$3 million for miscellaneous other costs. In 2012, the Company recorded charges of \$13 million for employee costs and asset impairments related to a decision to close a machine manufacturing facility in the U.S., \$7 million for employee costs and asset impairments related to a decision to close a mold shop in South America and \$15 million for miscellaneous other costs.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

9. Restructuring Accruals, Asset Impairments and Other Costs Related to Closed Facilities (Continued)

The following table presents information related to restructuring, asset impairment and other costs related to closed facilities:

	European Asset Optimization	Asia Pacific Restructuring	Other Restructuring Actions	Total Restructuring
Balance at January 1, 2013	53	6	64	123
2013 charges	16	49	32	97
Write-down of assets to net realizable value	(3)	(11)	(2)	(16)
Net cash paid, principally severance and related benefits	(37)	(16)	(25)	(78)
Pension charges transferred to other accounts . . .		(6)		(6)
Other, including foreign exchange translation . . .	1	(2)	(5)	(6)
Balance at December 31, 2013	30	20	64	114
2014 charges	1	73	2	76
Write-down of assets to net realizable value		(46)		(46)
Net cash paid, principally severance and related benefits	(12)	(20)	(26)	(58)
Pension charges transferred to other accounts . . .		(7)		(7)
Other, including foreign exchange translation . . .	(7)	(8)	(4)	(19)
Balance at December 31, 2014	<u>\$ 12</u>	<u>\$ 12</u>	<u>\$ 36</u>	<u>\$ 60</u>

The restructuring accrual balance represents the Company's estimates of the remaining future cash amounts to be paid related to the actions noted above. As of December 31, 2014, the Company's estimates include approximately \$28 million for severance and related benefits costs, \$26 million for environmental remediation costs, and \$6 million for other exit costs.

10. Pension Benefit Plans and Other Postretirement Benefits

Pension Benefit Plans

The Company has defined benefit pension plans covering a substantial number of employees located in the United States and several other non-U.S. jurisdictions. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. The Company's policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. The Company's defined benefit pension plans use a December 31 measurement date. The following tables relate to the Company's principal defined benefit pension plans.

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The changes in the pension benefit obligations for the year are as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Obligations at beginning of year	\$2,275	\$2,647	\$1,866	\$1,911
Change in benefit obligations:				
Service cost	22	27	23	33
Interest cost	105	106	69	72
Actuarial (gain) loss, including the effect of change in discount rates	264	(234)	131	(5)
Curtailment, settlement, and plan amendment	(56)		(567)	(52)
Special termination		8		
Participant contributions			5	7
Benefit payments	(182)	(279)	(91)	(101)
Foreign currency translation			(125)	1
Net change in benefit obligations	<u>153</u>	<u>(372)</u>	<u>(555)</u>	<u>(45)</u>
Obligations at end of year	<u>\$2,428</u>	<u>\$2,275</u>	<u>\$1,311</u>	<u>\$1,866</u>

The changes in the fair value of the pension plans' assets for the year are as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Fair value at beginning of year	\$2,273	\$2,175	\$1,578	\$1,527
Change in fair value:				
Actual gain on plan assets	155	365	188	61
Benefit payments	(182)	(279)	(91)	(101)
Employer contributions		12	28	92
Participant contributions			5	7
Settlements	(56)		(519)	
Foreign currency translation			(94)	(5)
Other			(1)	(3)
Net change in fair value of assets	<u>(83)</u>	<u>98</u>	<u>(484)</u>	<u>51</u>
Fair value at end of year	<u>\$2,190</u>	<u>\$2,273</u>	<u>\$1,094</u>	<u>\$1,578</u>

The employer contributions in the U.S. for 2013 include \$8 million related to special termination benefits for a discontinued operation.

The Company recognizes the funded status of each pension benefit plan on the balance sheet. The funded status of each plan is measured as the difference between the fair value of plan assets and actuarially calculated benefit obligations as of the balance sheet date. Actuarial gains and losses are accumulated in Other Comprehensive Income and the portion of each plan that exceeds 10% of the greater of that plan's assets or projected benefit obligation is amortized to income on a straight-line

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

basis over the average remaining service period of employees still accruing benefits or the expected life of participants not accruing benefits if all, or almost all, of the plan's participants are no longer accruing benefits.

The funded status of the pension plans at year end is as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Plan assets at fair value	\$2,190	\$2,273	\$1,094	\$1,578
Projected benefit obligations	2,428	2,275	1,311	1,866
Plan assets less than projected benefit obligations	(238)	(2)	(217)	(288)
Items not yet recognized in pension expense:				
Actuarial loss	1,125	935	347	488
Prior service cost (credit)	(2)	2		(25)
	1,123	937	347	463
Net amount recognized	\$ 885	\$ 935	\$ 130	\$ 175

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2014 and 2013 as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Pension assets	\$ —	\$ 46	\$ 22	\$ 22
Current pension liability, included with Other accrued liabilities	(3)	(2)	(9)	(6)
Pension benefits	(235)	(46)	(230)	(304)
Accumulated other comprehensive loss	1,123	937	347	463
Net amount recognized	\$ 885	\$935	\$ 130	\$ 175

The following changes in plan assets and benefit obligations were recognized in accumulated other comprehensive income at December 31, 2014 and 2013 as follows (amounts are pretax):

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Current year actuarial (gain) loss	\$285	\$(416)	\$ (23)	\$ 28
Amortization of actuarial loss	(68)	(110)	(20)	(28)
Amortization of prior service credit			2	1
Curtailement and plan amendment			22	(52)
Settlement	(30)		(64)	(6)
	187	(526)	(83)	(57)
Translation			(32)	(5)
	\$187	\$(526)	\$(115)	\$(62)

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The accumulated benefit obligation for all defined benefit pension plans was \$3,627 million and \$4,015 million at December 31, 2014 and 2013, respectively.

The components of the net pension expense for the year are as follows:

	U.S.			Non-U.S.		
	2014	2013	2012	2014	2013	2012
Service cost	\$ 22	\$ 27	\$ 27	\$ 23	\$ 33	\$ 26
Interest cost	105	106	114	69	72	77
Expected asset return	(176)	(183)	(183)	(86)	(91)	(87)
Amortization:						
Actuarial loss	68	110	96	18	28	22
Prior service credit					(1)	
Net amortization	68	110	96	18	27	22
Net expense	<u>\$ 19</u>	<u>\$ 60</u>	<u>\$ 54</u>	<u>\$ 24</u>	<u>\$ 41</u>	<u>\$ 38</u>

In 2014, the Company amended its salary pension plans in North America to freeze future pension benefits. This action required an obligation remeasurement for the curtailment of benefits, which resulted in a reduction of the Company's pension expense. Also in 2014, the Company settled a portion of the U.S. Salary Pension Plan pension obligation, which resulted in a settlement charge of \$30 million. The U.S. pension expense excludes \$8 million of special termination benefits that were recorded in discontinued operations in 2013. The U.S. pension expense excludes \$4 million of special termination benefits that were recorded in restructuring expense in 2012. On October 1, 2014, the Company settled the liability associated with its pension plan in the Netherlands. The settlement resulted in a non-cash charge of approximately \$35 million in the fourth quarter of 2014. The non-U.S. pension expense excludes \$3 million, \$6 million and \$11 million of pension settlement costs that were recorded in restructuring expense in 2014, 2013 and 2012, respectively.

Amounts that are expected to be amortized from accumulated other comprehensive income into net pension expense during 2015:

	U.S.	Non-U.S.
Amortization:		
Actuarial loss	\$73	\$16
Prior service cost	1	
Net amortization	<u>\$74</u>	<u>\$16</u>

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The following information is for plans with projected and accumulated benefit obligations in excess of the fair value of plan assets at year end:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets				Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets			
	U.S.		Non-U.S.		U.S.		Non-U.S.	
	2014	2013	2014	2013	2014	2013	2014	2013
Projected benefit obligations	\$2,428	\$674	\$1,049	\$1,588	\$2,428	\$674	\$1,049	\$1,588
Accumulated benefit obligation . . .	2,392	646	1,023	1,537	2,392	646	1,023	1,537
Fair value of plan assets	2,190	626	810	1,278	2,190	626	810	1,278

The weighted average assumptions used to determine benefit obligations are as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
	Discount rate	4.05%	4.81%	3.58%
Rate of compensation increase	2.96%	2.97%	2.89%	3.31%

The weighted average assumptions used to determine net periodic pension costs are as follows:

	U.S.			Non-U.S.		
	2014	2013	2012	2014	2013	2012
	Discount rate	4.81%	4.11%	4.59%	4.14%	3.89%
Rate of compensation increase	2.97%	2.97%	3.14%	3.31%	3.08%	3.23%
Expected long-term rate of return on assets	8.00%	8.00%	8.00%	7.23%	6.34%	6.24%

Future benefits are assumed to increase in a manner consistent with past experience of the plans, which, to the extent benefits are based on compensation, includes assumed salary increases as presented above.

For 2014, the Company's weighted average expected long-term rate of return on assets was 8% for the U.S. plans and 7.23% for the non-U.S. plans. In developing this assumption, the Company evaluated input from its third party pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered its historical 10-year average return (through December 31, 2013), which was in line with the expected long-term rate of return assumption for 2014.

It is the Company's policy to invest pension plan assets in a diversified portfolio consisting of an array of asset classes within established target asset allocation ranges. The investment risk of the assets is limited by appropriate diversification both within and between asset classes. The assets for the U.S. plans are maintained in a group trust. The U.S. plans hold no individual assets other than the investment in the group trust. The assets of the group trust and the Company's non-U.S. plans are primarily invested in a broad mix of domestic and international equities, domestic and international bonds, and real estate, subject to the target asset allocation ranges. The assets are managed with a view to ensuring that sufficient liquidity will be available to meet expected cash flow requirements.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The investment valuation policy of the Company is to value investments at fair value. All investments are valued at their respective net asset values. Equity securities for which market quotations are readily available are valued at the last reported sales price on their principal exchange on valuation date or official close for certain markets. Fixed income investments are valued by an independent pricing service. Investments in registered investment companies or collective pooled funds are valued at their respective net asset values. Short-term investments are stated at amortized cost, which approximates fair value. The fair value of real estate is determined by periodic appraisals.

The Company's U.S. pension plan assets held in the group trust are classified as Level 2 assets in the fair value hierarchy. The total U.S. plan assets amounted to \$2,190 million and \$2,273 million as of December 31, 2014 and 2013, respectively. In 2014, the U.S. plan assets consisted of approximately 62% equity securities, 29% debt securities, and 9% real estate. The following table sets forth by level, within the fair value hierarchy, the Company's non-U.S. pension plan assets at fair value as of December 31, 2014 and 2013:

	2014			2013			Target Allocation
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 14	\$ —	\$—	\$ 39	\$ 6	\$—	
Equity securities	343	200		387	210		45 - 55%
Debt securities	364	119	2	752	116	2	40 - 50%
Real estate		30	3			6	0 - 10%
Other		19		13	47		0 - 10%
Total assets at fair value	<u>\$721</u>	<u>\$368</u>	<u>\$ 5</u>	<u>\$1,191</u>	<u>\$379</u>	<u>\$ 8</u>	

The following is a reconciliation of the Company's pension plan assets recorded at fair value using significant unobservable inputs (Level 3):

	2014	2013
Beginning balance	\$ 8	\$ 18
Net increase (decrease)	(3)	(10)
Ending balance	<u>\$ 5</u>	<u>\$ 8</u>

The net increase (decrease) in the fair value of the Company's Level 3 pension plan assets is primarily due to purchases and sales of unlisted real estate funds. The change in the fair value of Level 3 pension plan assets due to actual return on those assets was immaterial in 2014.

In order to maintain minimum funding requirements, the Company is required to make contributions to its defined benefit pension plans of \$20 million in 2015.

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

<u>Year(s)</u>	<u>U.S.</u>	<u>Non-U.S.</u>
2015	\$184	\$ 61
2016	177	63
2017	169	63
2018	165	65
2019	163	68
2020 - 2024	780	373

The Company also sponsors several defined contribution plans for all salaried and hourly U.S. employees, Canada employees, U.K. employees, Netherlands employees and Australian employees. Participation is voluntary and participants' contributions are based on their compensation. The Company matches contributions of participants, up to various limits, in substantially all plans. Company contributions to these plans amounted to \$19 million in 2014, \$16 million in 2013, and \$16 million in 2012.

Postretirement Benefits Other Than Pensions

The Company provides retiree health care and life insurance benefits covering certain U.S. salaried and hourly employees, and substantially all employees in Canada. Benefits provided by the Company for hourly retirees are determined by collective bargaining. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. The Company uses a December 31 measurement date to measure its postretirement benefit obligations.

The changes in the postretirement benefit obligations for the year are as follows:

	<u>U.S.</u>		<u>Non-U.S.</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Obligations at beginning of year	\$111	\$181	\$90	\$102
Change in benefit obligations:				
Service cost		1	1	1
Interest cost	5	5	4	4
Actuarial (gain) loss, including the effect of changing discount rates	7	1	(2)	(7)
Benefit payments	(12)	(15)	(3)	(4)
Curtailment		(62)		
Foreign currency translation			(7)	(6)
Other			(2)	
Net change in benefit obligations	<u>—</u>	<u>(70)</u>	<u>(9)</u>	<u>(12)</u>
Obligations at end of year	<u>\$111</u>	<u>\$111</u>	<u>\$81</u>	<u>\$ 90</u>

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The funded status of the postretirement benefit plans at year end is as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Postretirement benefit obligations	\$(111)	\$(111)	\$(81)	\$(90)
Items not yet recognized in net postretirement benefit cost:				
Actuarial loss	35	30	(3)	(2)
Prior service credit	(46)	(54)	—	—
	<u>(11)</u>	<u>(24)</u>	<u>(3)</u>	<u>(2)</u>
Net amount recognized	<u>\$(122)</u>	<u>\$(135)</u>	<u>\$(84)</u>	<u>\$(92)</u>

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2014 and 2013 as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Current nonpension postretirement benefit, included with Other accrued liabilities	\$ (11)	\$ (10)	\$ (3)	\$ (4)
Nonpension postretirement benefits	(100)	(101)	(78)	(86)
Accumulated other comprehensive loss	(11)	(24)	(3)	(2)
Net amount recognized	<u>\$(122)</u>	<u>\$(135)</u>	<u>\$(84)</u>	<u>\$(92)</u>

The following changes in benefit obligations were recognized in accumulated other comprehensive income at December 31, 2014 and 2013 as follows (amounts are pretax):

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Current year actuarial (gain) loss	\$ 7	\$ 1	\$(2)	\$(7)
Curtailement		(57)		
Amortization of actuarial loss	(2)	(3)		
Amortization of prior service credit	8	7		
Other adjustments			1	
	<u>\$13</u>	<u>\$(52)</u>	<u>\$(1)</u>	<u>\$(7)</u>

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The components of the net postretirement benefit cost for the year are as follows:

	<u>U.S.</u>			<u>Non-U.S.</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Service cost	\$—	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	5	5	8	4	4	4
Curtailement gain		(5)				
Amortization:						
Actuarial loss	2	3	5			
Prior service credit	(8)	(7)	(3)	—	—	—
Net amortization	<u>(6)</u>	<u>(4)</u>	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net postretirement benefit (income) cost	<u>\$ (1)</u>	<u>\$ (3)</u>	<u>\$ 11</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>

Amounts that are expected to be amortized from accumulated other comprehensive income into net postretirement benefit cost during 2015:

	<u>U.S.</u>	<u>Non-U.S.</u>
Amortization:		
Actuarial loss	\$ 2	\$—
Prior service credit	(8)	—
Net amortization	<u>\$ (6)</u>	<u>\$—</u>

Amortization included in net postretirement benefit cost is based on the average remaining service of employees. The weighted average discount rates used to determine the accumulated postretirement benefit obligation and net postretirement benefit cost are as follows:

	<u>U.S.</u>			<u>Non-U.S.</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Accumulated post retirement benefit obligation	4.00%	4.63%	4.04%	3.75%	4.47%	3.89%
Net postretirement benefit cost	4.63%	4.04%	4.47%	4.47%	3.89%	4.13%

The weighted average assumed health care cost trend rates at December 31 are as follows:

	<u>U.S.</u>		<u>Non-U.S.</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Health care cost trend rate assumed for next year . . .	7.00%	7.00%	5.00%	5.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.00%	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate . . .	2024	2024	2014	2014

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

Assumed health care cost trend rates affect the amounts reported for the postretirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	U.S.		Non-U.S.	
	1-Percentage-Point		1-Percentage-Point	
	Increase	Decrease	Increase	Decrease
Effect on total of service and interest cost	\$—	\$—	\$ 1	\$ (1)
Effect on accumulated postretirement benefit obligations	5	(4)	14	(11)

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

<u>Year(s)</u>	U.S.	Non-U.S.
2015	\$11	\$ 3
2016	11	3
2017	11	3
2018	11	3
2019	10	3
2020 - 2024	46	18

Other U.S. hourly retirees receive health and life insurance benefits from a multi-employer trust established by collective bargaining. Payments to the trust as required by the bargaining agreements are based upon specified amounts per hour worked and were \$6 million in 2014, \$6 million in 2013 and \$6 million in 2012. Postretirement health and life benefits for retirees of foreign subsidiaries are generally provided through the national health care programs of the countries in which the subsidiaries are located.

11. Income Taxes

The provision for income taxes was calculated based on the following components of earnings (loss) before income taxes:

<u>Continuing operations</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
U.S.	\$(53)	\$ 86	\$ 32
Non-U.S.	271	249	296
	<u>\$218</u>	<u>\$335</u>	<u>\$328</u>
 <u>Discontinued operations</u>	 <u>2014</u>	 <u>2013</u>	 <u>2012</u>
U.S.	\$(19)	\$ (8)	\$—
Non-U.S.	(4)	(10)	(5)
	<u>\$(23)</u>	<u>\$(18)</u>	<u>\$(5)</u>

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

11. Income Taxes (Continued)

The provision (benefit) for income taxes consists of the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current:			
U.S.	\$ 7	\$ 7	\$ (4)
Non-U.S.	103	116	117
	<u>110</u>	<u>123</u>	<u>113</u>
Deferred:			
U.S.			8
Non-U.S.	(18)	(3)	(13)
	<u>(18)</u>	<u>(3)</u>	<u>(5)</u>
Total:			
U.S.	7	7	4
Non-U.S.	85	113	104
Total for continuing operations	92	120	108
Total for discontinued operations			(3)
	<u>\$ 92</u>	<u>\$120</u>	<u>\$105</u>

A reconciliation of the provision for income taxes based on the statutory U.S. Federal tax rate of 35% to the provision for income taxes is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Tax provision on pretax earnings from continuing operations at statutory U.S. Federal tax rate	\$ 76	\$117	\$115
Increase (decrease) in provision for income taxes due to:			
Differences in income taxes on foreign earnings, losses and remittances	(18)	(29)	(5)
Changes in valuation allowance	37	37	(7)
Tax audits and settlements	2	1	(1)
Other items	(5)	(6)	6
Provision for income taxes	<u>\$ 92</u>	<u>\$120</u>	<u>\$108</u>

Deferred income taxes reflect: (1) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes; and (2) carryovers and credits for income tax purposes.

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

11. Income Taxes (Continued)

Significant components of the Company's deferred tax assets and liabilities at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Accrued postretirement benefits	\$ 58	\$ 60
Asbestos-related liabilities	152	157
Foreign tax credit	376	356
Operating and capital loss carryovers	464	489
Other credit carryovers	37	46
Accrued liabilities	85	89
Pension liability	117	47
Other	<u>65</u>	<u>73</u>
Total deferred tax assets	1,354	1,317
Deferred tax liabilities:		
Property, plant and equipment	127	126
Exchangeable notes		10
Intangibles	34	27
Other	<u>36</u>	<u>59</u>
Total deferred tax liabilities	197	222
Valuation allowance	<u>(1,036)</u>	<u>(990)</u>
Net deferred taxes	<u>\$ 121</u>	<u>\$ 105</u>

Deferred taxes are included in the Consolidated Balance Sheets at December 31, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Prepaid expenses	\$ 39	\$ 64
Other assets	203	237
Deferred taxes	<u>(121)</u>	<u>(196)</u>
Net deferred taxes	<u>\$ 121</u>	<u>\$ 105</u>

The Company reviews the likelihood that it will realize the benefit of its deferred tax assets and therefore the need for valuation allowances on a quarterly basis, or whenever events indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset is considered, along with other positive and negative evidence.

At December 31, 2014, before valuation allowance, the Company had unused foreign tax credits of \$376 million expiring in 2017 through 2024, research tax credit of \$12 million expiring from 2019 to 2034, and alternative minimum tax credits of \$25 million which do not expire and which will be available to offset future U.S. Federal income tax. Approximately \$174 million of the deferred tax

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

11. Income Taxes (Continued)

assets related to operating and capital loss carryforwards can be carried over indefinitely, with the remaining \$290 million expiring between 2015 and 2035.

In certain foreign jurisdictions, the Company's analysis indicates that it has cumulative losses in recent years. This is considered significant negative evidence which is objective and verifiable and, therefore, difficult to overcome. However, the cumulative loss position is not solely determinative and, accordingly, the Company considers all other available positive and negative evidence in its analysis. Based on its analysis, the Company has recorded a valuation allowance for the portion of deferred tax assets where based on the weight of available evidence it is unlikely to realize those deferred tax assets.

In the U.S., the Company has experienced cumulative losses in previous years and has recorded a valuation allowance against its deferred tax assets. As of December 31, 2014 however, 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, 2014 is \$927 million.

At December 31, 2014, the Company's equity in the undistributed earnings of foreign subsidiaries for which income taxes had not been provided approximated \$2.9 billion. The Company intends to reinvest these earnings indefinitely in the non-U.S. operations and has not distributed any of these earnings to the U.S. in 2014, 2013 or 2012. It is not practicable to estimate the U.S. and foreign tax which would be payable should these earnings be distributed. Deferred taxes are provided for earnings of non-U.S. jurisdictions when the Company plans to remit those earnings.

The Company has recognized tax benefits as a result of incentives in certain non-U.S. jurisdictions which expire between 2015 and 2016.

The Company records a liability for unrecognized tax benefits related to uncertain tax positions. The Company accrues interest and penalties associated with unrecognized tax benefits as a component

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

11. Income Taxes (Continued)

of its income tax expense. The following is a reconciliation of the Company's total gross unrecognized tax benefits for the years ended December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Balance at January 1	\$100	\$ 97	\$125
Additions and reductions for tax positions of prior years	(13)	(3)	8
Additions based on tax positions related to the current year . .	10	9	7
Reductions due to the lapse of the applicable statute of limitations	(8)	(2)	(21)
Reductions due to settlements	(1)		(26)
Foreign currency translation	(11)	(1)	4
Balance at December 31	<u>\$ 77</u>	<u>\$100</u>	<u>\$ 97</u>
Unrecognized tax benefits, which if recognized, would impact the Company's effective income tax rate	<u>\$ 70</u>	<u>\$ 92</u>	<u>\$ 89</u>
Accrued interest and penalties at December 31	<u>\$ 29</u>	<u>\$ 35</u>	<u>\$ 33</u>
Interest and penalties included in tax expense for the years ended December 31	<u>\$ (2)</u>	<u>\$ 1</u>	<u>\$ (6)</u>

Based upon the outcome of tax examinations, judicial proceedings, or expiration of statute of limitations, it is reasonably possible that the ultimate resolution of these unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities. The Company believes that it is reasonably possible that the estimated liability could decrease up to \$12 million within the next 12 months. This is primarily the result of audit settlements or statute expirations in several taxing jurisdictions.

The Company is currently under examination in various tax jurisdictions in which it operates, including Argentina, Brazil, Canada, Germany, Indonesia, Italy and Peru. The years under examination range from 2005 through 2012. The Company believes that there are no jurisdictions in which the outcome of unresolved issues or claims is likely to be material to the Company's results of operations, financial position or cash flows. The Company further believes that adequate provisions for all income tax uncertainties have been made. During 2014, the Company concluded income tax audits in several jurisdictions, including Australia, Ecuador, Italy, and Poland.

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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12. Debt

The following table summarizes the long-term debt of the Company at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Secured Credit Agreement:		
Revolving Credit Facility:		
Revolving Loans	\$ —	\$ —
Term Loans:		
Term Loan B	405	405
Term Loan C (81 million CAD at December 31, 2014)	70	76
Term Loan D (€85 million at December 31, 2014)	103	117
Senior Notes:		
3.00%, Exchangeable, due 2015	18	617
7.375%, net of discount, due 2016	596	593
6.75%, due 2020 (€500 million)	608	690
4.875%, due 2021 (€330 million)	401	455
5.00%, due 2022	494	
5.375%, due 2025	296	
Senior Debentures:		
7.80%, due 2018	250	250
Capital leases	63	37
Other	29	21
Total long-term debt	<u>3,333</u>	<u>3,261</u>
Less amounts due within one year	<u>361</u>	<u>16</u>
Long-term debt	<u>\$2,972</u>	<u>\$3,245</u>

On May 19, 2011, the Company entered into the Secured Credit Agreement (the “Agreement”). At December 31, 2014, the Agreement included a \$900 million revolving credit facility, a \$405 million term loan, an 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 December 31, 2014, the Company had unused credit of \$804 million available under the Agreement.

The Agreement contains various covenants that restrict, among other things and subject to certain exceptions, the ability of the Company to incur certain liens, make certain investments, become liable under contingent obligations in certain defined instances only, make restricted junior payments, make certain asset sales within guidelines and limits, make capital expenditures beyond a certain threshold, engage in material transactions with shareholders and affiliates, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain outstanding debt obligations.

The Agreement also contains one financial maintenance covenant, a Leverage Ratio, that requires the Company not to exceed a ratio calculated by dividing consolidated total debt, less cash and cash equivalents, by Consolidated Adjusted EBITDA, as defined in the Agreement. The Leverage Ratio could restrict the ability of the Company to undertake additional financing or acquisitions to the extent

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

12. Debt (Continued)

that such financing or acquisitions would cause the Leverage Ratio to exceed the specified maximum of 4.0x.

Failure to comply with these covenants and restrictions could result in an event of default under the Agreement. In such an event, the Company could not request borrowings under the revolving facility, and all amounts outstanding under the Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Agreement and the lenders cause all of the outstanding debt obligations under the Agreement to become due and payable, this would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. A default or event of default under the Agreement, indentures or agreements governing other indebtedness could also lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross-default provisions.

The Leverage Ratio also determines pricing under the Agreement. The interest rate on borrowings under the Agreement is, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Agreement. These rates include a margin linked to the Leverage Ratio. The margins range from 1.25% to 2.00% for Eurocurrency Rate loans and from 0.25% to 1.00% for Base Rate loans. In addition, a facility fee is payable on the revolving credit facility commitments ranging from 0.25% to 0.50% per annum linked to the Leverage Ratio. The weighted average interest rate on borrowings outstanding under the Agreement at December 31, 2014 was 2.09%. As of December 31, 2014, the Company was in compliance with all covenants and restrictions in the Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Agreement will not be adversely affected by the covenants and restrictions.

Borrowings under the Agreement are secured by substantially all of the assets, excluding real estate, of the Company's domestic subsidiaries and certain foreign subsidiaries. Borrowings are also secured by a pledge of intercompany debt and equity in most of the Company's domestic subsidiaries and stock of certain foreign subsidiaries. All borrowings under the agreement are guaranteed by substantially all domestic subsidiaries of the Company for the term of the Agreement.

During December 2014, the Company issued senior notes with a face value of \$500 million that bear interest at 5.00% and are due January 15, 2022. The Company also issued senior notes with a face value of \$300 million that bear interest at 5.375% and are due January 15, 2025. The New Senior Notes were issued via a private placement and are guaranteed by substantially all of the Company's domestic subsidiaries. The net proceeds from the New Senior Notes, after deducting debt issuance costs, totaled approximately \$790 million and were used to purchase in a tender offer \$611 million aggregate principal amount of the Company's 3.00% exchangeable senior notes due June 1, 2015. Approximately \$18 million of the exchangeable senior notes remain outstanding as of December 31, 2014. As part of the tender offer, the Company recorded \$20 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees in the fourth quarter of 2014.

During March 2013, the Company issued, in a private placement, 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.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

12. Debt (Continued)

During March 2013, the Company discharged, in accordance with the indenture, all €300 million of its 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 as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Balance (included in short-term loans)	\$ 122	\$ 276
Weighted average interest rate	1.41%	1.41%

Annual maturities for all of the Company's long-term debt through 2019 are as follows: 2015, \$361 million; 2016, \$883 million; 2017, \$4 million; 2018, \$254 million; and 2019, \$4 million.

Fair values at December 31, 2014, of the Company's significant fixed rate debt obligations are as follows:

	<u>Principal Amount</u>	<u>Indicated Market Price</u>	<u>Fair Value</u>
Senior Notes:			
7.375%, due 2016	\$600	\$106.70	\$640
6.75%, due 2020 (€500 million)	608	118.85	723
4.875%, due 2021 (€330 million)	401	110.00	441
5.00%, due 2022	500	101.81	509
5.375%, due 2025	300	101.25	304
Senior Debentures:			
7.80%, due 2018	250	112.31	281

13. 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").

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

13. Contingencies (Continued)

The following table shows the approximate number of plaintiffs and claimants who had asbestos claims pending against the Company at the beginning of each listed year, the number of claims disposed of during that year, the year's filings and the claims pending at the end of each listed year (eliminating duplicate filings):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Pending at beginning of year	2,620	2,610	4,640
Disposed	1,870	1,700	4,390
Filed	1,470	1,710	2,360
Pending at end of year	<u>2,220</u>	<u>2,620</u>	<u>2,610</u>

Based on an analysis of the lawsuits pending as of December 31, 2014, approximately 81% 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 13% of plaintiffs specifically plead damages above the jurisdictional minimum up to, and including, \$15 million or less, and 5% 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 December 31, 2014, has disposed of the asbestos claims of approximately 395,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$8,900. Certain of these dispositions have included deferred amounts payable. Deferred amounts payable totaled approximately \$13 million at December 31, 2014 (\$12 million at

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

13. Contingencies (Continued)

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 claims that would otherwise have been received by the Company in the tort system. In addition, certain courts and legislatures have reduced or eliminated the number of claims that the Company otherwise would have received by the Company in the tort system. 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 \$4.4 billion through 2014, 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 inherent uncertainty of future disease incidence and claiming patterns against the Company, the significant expansion of the defendants that are now sued in this litigation, and the continuing changes in the extent to which these defendants participate in the resolution of cases in which the Company is also a defendant.

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 claims the Company believes will be asserted in the next several years.

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

- 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 asbestos-related disease cases and claiming patterns against the Company 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

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

13. Contingencies (Continued)

- 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 that the addition of one year to the estimation period will usually result in an annual charge.

The Company's reported results of operations for 2014 were materially affected by the \$135 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.

As disclosed in previous periods, 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 \$85 million (including penalties and interest). The Company challenged this assessment,

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

13. Contingencies (Continued)

but the tax authority's position was upheld in court. The case was heard by a higher court in November 2014, and on February 5, 2015, the Company was informed that the higher court had issued a unfavorable verdict. The Company strongly disagrees with this ruling, however, there are no further appeals available to the Company. The unfavorable ruling has resulted in a charge of \$69 million. In order to contest the lower court rulings, legal rules required the Company to deposit the amount of the tax assessment, including penalties and interest. As of December 31, 2014, the Company has made installment payments totaling \$76 million and a net refund of approximately \$7 million is expected.

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.

14. Accumulated Other Comprehensive Income (Loss)

The components of comprehensive income are: (a) net earnings; (b) change in fair value of certain derivative instruments; (c) pension and other postretirement benefit adjustments; and (d) foreign currency translation adjustments. The net effect of exchange rate fluctuations generally reflects changes in the relative strength of the U.S. dollar against major foreign currencies between the beginning and end of the year.

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

14. Accumulated Other Comprehensive Income (Loss) (Continued)

The following table lists the beginning balance, annual activity and ending balance of each component of accumulated other comprehensive income (loss):

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments	Employee Benefit Plans	Total Accumulated Other Comprehensive Income (Loss)
Balance on January 1, 2013	\$ 455	\$(14)	\$(1,947)	\$(1,506)
Change before reclassifications	(226)	1	503	278
Amounts reclassified from accumulated other comprehensive income		1(a)	139(b)	140
Tax effect	—	—	(33)	(33)
Other comprehensive income (loss) attributable to the Company	<u>(226)</u>	<u>2</u>	<u>609</u>	<u>385</u>
Balance on December 31, 2013	\$ 229	\$(12)	\$(1,338)	\$(1,121)
Change before reclassifications	(284)	3	(140)	(421)
Amounts reclassified from accumulated other comprehensive income		(2)(a)	92(b)	90
Translation effect			(32)	(32)
Tax effect	—	—	(10)	(10)
Other comprehensive income (loss) attributable to the Company	<u>(284)</u>	<u>1</u>	<u>(90)</u>	<u>(373)</u>
Balance on December 31, 2014	<u>\$ (55)</u>	<u>\$(11)</u>	<u>\$(1,428)</u>	<u>\$(1,494)</u>

- (a) Amount is included in Cost of goods sold on the Consolidated Results of Operations (see Note 8 for additional information).
- (b) Amount is included in the computation of net periodic pension cost and net postretirement benefit cost (see Note 10 for additional information).

15. Stock Options and Other Stock Based Compensation

The Company has various nonqualified plans approved by share owners under which it has granted stock options, restricted shares and performance vested restricted share units. At December 31, 2014, there were 9,902,000 shares available for grants under these plans. Total compensation cost for all grants of shares and units under these plans was \$21 million, \$11 million and \$11 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Stock Options

Options granted prior to March 22, 2005, all of which are exercisable, expire following termination of employment or the day after the tenth anniversary date of the option grant.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

15. Stock Options and Other Stock Based Compensation (Continued)

For options granted after March 21, 2005, no options may be exercised in whole or in part during the first year after the date granted. In general, subject to change in control, these options become exercisable 25% per year beginning on the first anniversary. In general, options expire following termination of employment or the seventh anniversary of the option grant. The fair value of options is amortized over the vesting periods which range from one to four years.

Stock option information at December 31, 2014 and for the year then ended is as follows:

	Number of Shares (thousands)	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2014	2,421	\$25.50		
Granted	346	33.38		
Exercised	(231)	21.43		
Forfeited or expired	(115)	29.43		
Options outstanding at December 31, 2014	<u>2,421</u>	<u>26.83</u>	<u>3.1</u>	<u>\$12</u>
Options vested or expected to vest at December 31, 2014	<u>2,389</u>	<u>\$26.80</u>	<u>3.0</u>	<u>\$12</u>
Options exercisable at December 31, 2014	<u>1,595</u>	<u>\$24.14</u>	<u>2.0</u>	<u>\$11</u>

Certain additional information related to stock options is as follows for the periods indicated:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Weighted average grant-date fair value of options granted (per share)	<u>\$13.17</u>	<u>\$12.39</u>	<u>\$10.63</u>
Aggregate intrinsic value of options exercised	<u>\$ 3</u>	<u>\$ 16</u>	<u>\$ 3</u>
Aggregate cash received from options exercised	<u>\$ 5</u>	<u>\$ 24</u>	<u>\$ 4</u>

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Expected life of options (years)	5.00	5.00	4.75
Expected stock price volatility	43.0%	55.3%	56.6%
Risk-free interest rate	1.6%	0.9%	0.8%
Expected dividend yield	0.0%	0.0%	0.0%

The expected life of options is determined from historical exercise and termination data. The expected stock price volatility is determined by reference to historical prices over a period equal to the expected life.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

15. Stock Options and Other Stock Based Compensation (Continued)

Restricted Shares and Restricted Share Units

Shares granted to employees prior to March 22, 2005, generally vest after three years or upon retirement, whichever is later. Shares granted after March 21, 2005 and prior to 2011, vest 25% per year beginning on the first anniversary and unvested shares are forfeited upon termination of employment. Restricted share units granted to employees after 2010 vest 25% per year beginning on the first anniversary. Holders of vested restricted share units receive one share of the Company's common stock for each unit. Granted but unvested restricted share units are forfeited upon termination, unless certain retirement criteria are met. Restricted share units granted to directors vest after one year.

The fair value of the restricted shares and restricted share units is equal to the market price of the Company's common stock on the date of the grant. The fair value of restricted shares granted before March 22, 2005, is amortized ratably over the vesting period. The fair value of restricted shares and restricted share units granted after March 21, 2005, is amortized over the vesting periods which range from one to four years.

The activity of restricted shares and restricted share units is as follows:

	Number of Restricted Shares (thousands)	Weighted Average Grant-Date Fair Value (per share)
Nonvested at January 1, 2014	457	\$24.14
Granted	213	33.36
Vested	(153)	26.45
Forfeited	(30)	27.39
Nonvested at December 31, 2014	<u>487</u>	<u>27.25</u>
Awards granted during 2013		\$26.49
Awards granted during 2012		\$22.39
	<u>2014</u>	<u>2013</u> <u>2012</u>
Total fair value of shares vested	<u>\$5</u>	<u>\$5</u> <u>\$5</u>

Performance Vested Restricted Share Units

Performance vested restricted share units vest on January 1 of the third year following the year in which they are granted. Holders of vested units may receive up to 2 shares of the Company's common stock for each unit, depending upon the attainment of consolidated performance goals established by the Compensation Committee of the Company's Board of Directors. If minimum goals are not met, no shares will be issued. Granted but unvested restricted share units are forfeited upon termination of employment, unless certain retirement criteria are met.

The fair value of each performance vested restricted share unit is equal to the product of the fair value of the Company's common stock on the date of grant and the estimated number of shares into which the performance vested restricted share unit will be converted. The fair value of performance

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

15. Stock Options and Other Stock Based Compensation (Continued)

vested restricted share units is amortized ratably over the vesting period. Should the estimated number of shares into which the performance vested restricted share unit will be converted change, an adjustment will be recorded to recognize the accumulated difference in amortization between the revised and previous estimates.

Performance vested restricted share unit activity is as follows:

	Number of Performance Vested Restricted Shares Units (thousands)	Weighted Average Grant-Date Fair Value (per unit)
Nonvested at January 1, 2014	882	\$25.49
Granted	273	33.41
Vested	(56)	29.67
Forfeited/Cancelled	(196)	28.64
Nonvested at December 31, 2014	<u>903</u>	<u>26.94</u>
Awards granted during 2013		\$26.10
Awards granted during 2012		\$22.50

273,000 shares were issued in 2014 with a fair value at issuance date of \$2 million related to performance vested restricted share units.

As of December 31, 2014, there was \$15 million of total unrecognized compensation cost related to all unvested stock options, restricted shares, restricted share units and performance vested restricted share units. That cost is expected to be recognized over a weighted average period of approximately two years.

16. Other Expense, net

Other expense, net for the year ended December 31, 2014, 2013, and 2012 included the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Restructuring, asset impairment and related charges	\$ 68	\$ 97	\$168
Charge for asbestos-related costs	135	145	155
Non-income tax charge	69		
Charge for Argentina impairment		22	
Gain on China land compensation			(61)
Foreign currency exchange (gain) loss	(2)	9	8
Other expense (income)	13	(7)	(16)
	<u>\$283</u>	<u>\$266</u>	<u>\$254</u>

In 2014, the Company recorded charges totaling \$76 million for restructuring, asset impairment and related charges. These charges include \$68 million recorded to other expense and \$8 million recorded to cost of goods sold. See Note 9 for additional information.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

17. Operating Leases

Rent expense attributable to all warehouse, office buildings and equipment operating leases was \$63 million in 2014, \$57 million in 2013, and \$76 million in 2012. Minimum future rentals under operating leases are as follows: 2015, \$54 million; 2016, \$46 million; 2017, \$41 million; 2018, \$36 million; 2019, \$26 million; and 2020 and thereafter, \$42 million.

18. Earnings Per Share

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

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Numerator:			
Net earnings attributable to the Company	\$ 75	\$ 184	\$ 184
Denominator (in thousands):			
Denominator for basic earnings per share - weighted average shares outstanding	164,720	164,425	164,474
Effect of dilutive securities:			
Stock options and other	1,327	1,403	1,294
Denominator for diluted earnings per share - adjusted weighted average shares	166,047	165,828	165,768
Basic earnings per share:			
Earnings from continuing operations	\$ 0.60	\$ 1.22	\$ 1.13
Loss from discontinued operations	(0.14)	(0.11)	(0.01)
Net earnings	\$ 0.46	\$ 1.11	\$ 1.12
Diluted earnings per share:			
Earnings from continuing operations	\$ 0.59	\$ 1.22	\$ 1.12
Gain (loss) from discontinued operations	(0.14)	(0.11)	(0.01)
Net earnings	\$ 0.45	\$ 1.11	\$ 1.11

Options to purchase 1,143,933, 1,315,216 and 2,125,963 weighted average shares of common stock which were outstanding during 2014, 2013 and 2012, 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.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

19. Supplemental Cash Flow Information

Changes in the components of working capital related to operations (net of the effects related to acquisitions and divestitures) were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Decrease (increase) in current assets:			
Receivables	\$ 59	\$ 18	\$213
Inventories	(26)	(30)	(74)
Prepaid expenses and other	(1)	3	19
Increase (decrease) in current liabilities:			
Accounts payable	103	128	(53)
Accrued liabilities	12	7	(47)
Salaries and wages	(3)	(2)	29
U.S. and foreign income taxes	(27)	—	(6)
	<u>\$117</u>	<u>\$124</u>	<u>\$ 81</u>

Interest paid in cash, including note repurchase premiums, aggregated \$199 million for 2014, \$205 million for 2013, and \$234 million for 2012.

Income taxes paid in cash were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
U.S.	\$ —	\$ —	\$ —
Non-U.S.	101	128	132
Total income taxes paid in cash	<u>\$101</u>	<u>\$128</u>	<u>\$132</u>

20. Discontinued Operations

The loss from discontinued operations of \$23 million for the year ended December 31, 2014 included a settlement of a dispute with a purchaser of a previously disposed business, as well as ongoing costs related to the Venezuela expropriation.

The loss from discontinued operations of \$18 million for the year ended December 31, 2013 included special termination benefits related to a previously disposed business, as well as ongoing costs related to the Venezuelan expropriation.

The loss from discontinued operations of \$2 million for the year ended December 31, 2012 included ongoing costs related to the Venezuelan expropriation.

21. 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.

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

21. Financial Information for Subsidiary Guarantors and Non-Guarantors (Continued)

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.

Balance Sheet	December 31, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	\$ —	\$ —	\$ 512	\$ —	\$ 512
Receivables			744		744
Inventories			1,035		1,035
Prepaid expenses			80		80
Total current assets	—	—	2,371	—	2,371
Investments in and advances to subsidiaries	1,863	1,593		(3,456)	—
Property, plant and equipment, net			2,445		2,445
Goodwill			1,893		1,893
Other assets			1,149		1,149
Total assets	<u>\$1,863</u>	<u>\$1,593</u>	<u>\$7,858</u>	<u>\$(3,456)</u>	<u>\$7,858</u>
Current liabilities:					
Short-term loans and long-term debt due within one year	\$ —	\$ —	\$ 488	\$ —	\$ 488
Current portion of asbestos liability . . .	143				143
Accounts payable			1,137		1,137
Other liabilities	20		560	(20)	560
Total current liabilities	163	—	2,185	(20)	2,328
Long-term debt	250		2,972	(250)	2,972
Asbestos-related liabilities	292				292
Other long-term liabilities			991		991
Share owners' equity	1,158	1,593	1,593	(3,186)	1,158
Noncontrolling interest			117		117
Total liabilities and share owners' equity .	<u>\$1,863</u>	<u>\$1,593</u>	<u>\$7,858</u>	<u>\$(3,456)</u>	<u>\$7,858</u>

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

21. Financial Information for Subsidiary Guarantors and Non-Guarantors (Continued)

<u>Balance Sheet</u>	<u>December 31, 2013</u>				
	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:					
Cash and cash equivalents	\$ —	\$ —	\$ 383	\$ —	\$ 383
Receivables			943		943
Inventories			1,117		1,117
Prepaid expenses			107		107
Total current assets	—	—	2,550	—	2,550
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
Total assets	<u>\$2,154</u>	<u>\$1,904</u>	<u>\$8,419</u>	<u>\$(4,058)</u>	<u>\$8,419</u>
Current liabilities:					
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
Total current liabilities	150	—	2,104	—	2,254
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	1,904	(3,808)	1,456
Noncontrolling interests			147		147
Total liabilities and share owners' equity .	<u>\$2,154</u>	<u>\$1,904</u>	<u>\$8,419</u>	<u>\$(4,058)</u>	<u>\$8,419</u>

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

21. Financial Information for Subsidiary Guarantors and Non-Guarantors (Continued)

Results of Operations	Year ended December 31, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ —	\$ 6,784	\$ —	\$ 6,784
Cost of goods sold	—	—	(5,531)	—	(5,531)
Gross profit	—	—	1,253	—	1,253
Selling and administrative expense			(523)		(523)
Research, development and engineering expense			(63)		(63)
Net intercompany interest	20		(20)		—
Interest expense, net	(20)		(210)		(230)
Equity earnings from subsidiaries	210	210		(420)	—
Other equity earnings			64		64
Other expense, net	(135)		(148)		(283)
Earnings before income taxes	75	210	353	(420)	218
Provision for income taxes			(92)		(92)
Earnings from continuing operations	75	210	261	(420)	126
Loss from discontinued operations			(23)		(23)
Net earnings	75	210	238	(420)	103
Net earnings attributable to noncontrolling interests			(28)		(28)
Net earnings attributable to the Company	<u>\$ 75</u>	<u>\$210</u>	<u>\$ 210</u>	<u>\$(420)</u>	<u>\$ 75</u>

Comprehensive Income	Year ended December 31, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings (loss)	\$ 75	\$ 210	\$ 238	\$(420)	\$ 103
Other comprehensive income (loss)	(394)	(394)	(394)	788	(394)
Total comprehensive income (loss)	(319)	(184)	(156)	368	(291)
Comprehensive income attributable to noncontrolling interests	21		(7)	(21)	(7)
Comprehensive income (loss) attributable to the Company	<u>\$(298)</u>	<u>\$(184)</u>	<u>\$(163)</u>	<u>\$ 347</u>	<u>\$(298)</u>

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

21. Financial Information for Subsidiary Guarantors and Non-Guarantors (Continued)

Results of Operations	Year ended December 31, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ —	\$ 6,967	\$ —	\$ 6,967
Cost of goods sold	—	—	(5,636)	—	(5,636)
Gross profit	—	—	1,331	—	1,331
Selling and administrative expense	—	—	(506)	—	(506)
Research, development and engineering expense	—	—	(62)	—	(62)
Net intercompany interest	20	—	(20)	—	—
Interest expense, net	(20)	—	(209)	—	(229)
Equity earnings from subsidiaries	329	329	—	(658)	—
Other equity earnings	—	—	67	—	67
Other expense, net	(145)	—	(121)	—	(266)
Earnings before income taxes	184	329	480	(658)	335
Provision for income taxes	—	—	(120)	—	(120)
Earnings from continuing operations	184	329	360	(658)	215
Loss from discontinued operations	—	—	(18)	—	(18)
Net earnings	184	329	342	(658)	197
Net earnings attributable to noncontrolling interests	—	—	(13)	—	(13)
Net earnings attributable to the Company	<u>\$ 184</u>	<u>\$329</u>	<u>\$ 329</u>	<u>\$(658)</u>	<u>\$ 184</u>

Comprehensive Income	Year ended December 31, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings (loss)	\$184	\$329	\$ 342	\$ (658)	\$197
Other comprehensive income (loss)	379	379	379	(758)	379
Total comprehensive income (loss)	563	708	721	(1,416)	576
Comprehensive income attributable to noncontrolling interests	6	—	(7)	(6)	(7)
Comprehensive income (loss) attributable to the Company	<u>\$569</u>	<u>\$708</u>	<u>\$ 714</u>	<u>\$(1,422)</u>	<u>\$569</u>

Owens-Illinois, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tabular data dollars in millions, except per share amounts

21. Financial Information for Subsidiary Guarantors and Non-Guarantors (Continued)

Results of Operations	Year ended December 31, 2012				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ —	\$ 7,000	\$ —	\$ 7,000
Cost of goods sold	—	—	(5,626)	—	(5,626)
Gross profit	—	—	1,374	—	1,374
Selling and administrative expense	—	—	(555)	—	(555)
Research, development and engineering expense	—	—	(62)	—	(62)
Net intercompany interest	20	—	(20)	—	—
Interest expense, net	(20)	—	(219)	—	(239)
Equity earnings from subsidiaries	339	339	—	(678)	—
Other equity earnings	—	—	64	—	64
Other expense, net	(155)	—	(99)	—	(254)
Earnings before income taxes	184	339	483	(678)	328
Provision for income taxes	—	—	(108)	—	(108)
Earnings from continuing operations	184	339	375	(678)	220
Loss from discontinued operations	—	—	(2)	—	(2)
Net earnings	184	339	373	(678)	218
Net earnings attributable to noncontrolling interests	—	—	(34)	—	(34)
Net earnings attributable to the Company	<u>\$ 184</u>	<u>\$339</u>	<u>\$ 339</u>	<u>\$(678)</u>	<u>\$ 184</u>

Comprehensive Income	Year ended December 31, 2012				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net earnings (loss)	\$ 184	\$ 339	\$ 373	\$(678)	\$ 218
Other comprehensive income	(177)	(177)	(177)	354	(177)
Total comprehensive income	7	162	196	(324)	41
Comprehensive income attributable to noncontrolling interests	(8)	—	(42)	8	(42)
Comprehensive income attributable to the Company	<u>\$ (1)</u>	<u>\$ 162</u>	<u>\$ 154</u>	<u>\$(316)</u>	<u>\$ (1)</u>

Owens-Illinois, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions, except per share amounts

21. Financial Information for Subsidiary Guarantors and Non-Guarantors (Continued)

<u>Cash Flows</u>	Year ended December 31, 2014				
	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash provided by (utilized in) operating activities	\$(148)	\$—	\$ 823	\$—	\$ 675
Cash utilized in investing activities			(455)		(455)
Cash provided by (utilized in) financing activities	148		(218)		(70)
Effect of exchange rate change on cash	—	—	(21)	—	(21)
Net change in cash	—	—	129	—	129
Cash at beginning of period	—	—	383	—	383
Cash at end of period	<u>\$ —</u>	<u>\$—</u>	<u>\$ 512</u>	<u>\$—</u>	<u>\$ 512</u>
	Year ended December 31, 2013				
<u>Cash Flows</u>	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash provided by (utilized in) operating activities	\$(158)	\$—	\$ 840	\$—	\$ 682
Cash utilized in investing activities			(402)		(402)
Cash provided by (utilized in) financing activities	158		(479)		(321)
Effect of exchange rate change on cash	—	—	(7)	—	(7)
Net change in cash	—	—	(48)	—	(48)
Cash at beginning of period	—	—	431	—	431
Cash at end of period	<u>\$ —</u>	<u>\$—</u>	<u>\$ 383</u>	<u>\$—</u>	<u>\$ 383</u>
	Year ended December 31, 2012				
<u>Cash Flows</u>	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash provided by (utilized in) operating activities	\$(165)	\$—	\$ 740	\$—	\$ 575
Cash utilized in investing activities			(221)		(221)
Cash provided by (utilized in) financing activities	165		(504)		(339)
Effect of exchange rate change on cash	—	—	16	—	16
Net change in cash	—	—	31	—	31
Cash at beginning of period	—	—	400	—	400
Cash at end of period	<u>\$ —</u>	<u>\$—</u>	<u>\$ 431</u>	<u>\$—</u>	<u>\$ 431</u>

Selected Quarterly Financial Data (unaudited) The following tables present selected financial data by quarter for the years ended December 31, 2014 and 2013:

	2014				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net sales	\$1,639	\$1,797	\$1,745	\$1,603	\$6,784
Gross profit	\$ 321	\$ 358	\$ 337	\$ 237	\$1,253
Earnings (loss) from continuing operations attributable to the Company(a)	\$ 102	\$ 134	\$ 61	\$ (199)	\$ 98
Loss from discontinued operations attributable to the Company	(1)	(20)	(1)	(1)	(23)
Net earnings (loss) attributable to the Company	\$ 101	\$ 114	\$ 60	\$ (200)	\$ 75
Earnings per share of common stock(b):					
Basic:					
Earnings (loss) from continuing operations	\$ 0.62	\$ 0.81	\$ 0.37	\$ (1.20)	\$ 0.60
Loss from discontinued operations	(0.01)	(0.12)	—	(0.01)	(0.14)
Net earnings (loss)	\$ 0.61	\$ 0.69	\$ 0.37	\$ (1.21)	\$ 0.46
Diluted:					
Earnings (loss) from continuing operations	\$ 0.62	\$ 0.80	\$ 0.37	\$ (1.20)	\$ 0.59
Loss from discontinued operations	(0.01)	(0.12)	—	(0.01)	(0.14)
Net earnings (loss)	\$ 0.61	\$ 0.68	\$ 0.37	\$ (1.21)	\$ 0.45

(a) Amounts management considers not representative of ongoing operations include:

Amount for the third quarter included charges totaling \$84 million (\$63 million after tax amount attributable to the Company) for restructuring, asset impairment and related charges. The effect of these charges was a reduction in earnings per share of \$0.38.

Amount for the fourth quarter included net charges totaling \$296 million (\$274 million after tax amount attributable to the Company) for the following: (1) \$135 million (pretax and after tax) to increase the accrual for estimated future asbestos-related costs; (2) \$69 million (pretax and after tax) for non-income tax charge; (3) \$7 million (\$3 million after tax amount attributable to the Company) for restructuring, asset impairment and related charges; (4) \$65 million (\$55 million after tax attributable to the Company) for pension settlement charges; (5) \$20 million (pretax and after tax) for note repurchase premiums and the write-off of finance fees related to debt that was repaid prior to its maturity; and (6) \$8 million net benefit for certain tax adjustments. The effect of these charges was a reduction in earnings per share of \$1.67.

- (b) Earnings per share are computed independently for each period presented. As such, the sums of the amounts calculated separately for each quarter do not equal the year-to-date amount.

	2013				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net sales	\$1,641	\$1,781	\$1,784	\$1,761	\$6,967
Gross profit	\$ 319	\$ 369	\$ 352	\$ 291	\$1,331
Earnings (loss) from continuing operations attributable to the Company(c)	\$ 79	\$ 135	\$ 132	\$ (144)	\$ 202
Loss from discontinued operations attributable to the Company	(10)	(3)	(2)	(3)	(18)
Net earnings (loss) attributable to the Company	\$ 69	\$ 132	\$ 130	\$ (147)	\$ 184
Earnings per share of common stock(d):					
Basic:					
Earnings (loss) from continuing operations	\$ 0.48	\$ 0.82	\$ 0.80	\$ (0.88)	\$ 1.22
Loss from discontinued operations	(0.06)	(0.02)	(0.01)	(0.02)	(0.11)
Net earnings (loss)	\$ 0.42	\$ 0.80	\$ 0.79	\$ (0.90)	\$ 1.11
Diluted:					
Earnings (loss) from continuing operations	\$ 0.48	\$ 0.81	\$ 0.79	\$ (0.88)	\$ 1.22
Loss from discontinued operations	(0.06)	(0.02)	(0.01)	(0.02)	(0.11)
Net earnings (loss)	\$ 0.42	\$ 0.79	\$ 0.78	\$ (0.90)	\$ 1.11

- (c) Amounts management considers not representative of ongoing operations include:

Amount for the first quarter included charges totaling \$21 million (\$20 million after tax amount attributable to the Company) for the following: (1) \$11 million (pretax and after tax) for note repurchase premiums and the write-off of finance fees related to debt that was repaid prior to its maturity; and (2) \$10 million (\$9 million after tax amount attributable to the Company) for restructuring, asset impairment and related charges. The effect of these charges was a reduction in earnings per share of \$0.12.

Amount for the fourth quarter included net charges totaling \$254 million (\$229 million after tax amount attributable to the Company) for the following: (1) \$145 million (pretax and after tax) to increase the accrual for estimated future asbestos-related costs; and (2) \$109 million (\$84 million after tax amount attributable to the Company) for restructuring, asset impairment and related charges. The effect of these charges was a reduction in earnings per share of \$1.38.

- (d) Earnings per share are computed independently for each period presented. As such, the sums of the amounts calculated separately for each quarter do not equal the year-to-date amount.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 31, 2014.

Management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2014. 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 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. There have been no 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 material affect, the Company's internal controls over financial reporting.

Management's Report on Internal Control over Financial Reporting

The management of Owens-Illinois, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. However, all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and reporting.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment management used the criteria for effective internal control over financial reporting as described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO framework) in 2013.

Based on this assessment, using the criteria above, management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2014.

The Company's independent registered public accounting firm, Ernst & Young LLP, that audited the Company's consolidated financial statements, has issued an attestation report on the Company's internal control over financial reporting which is included below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Share Owners of
Owens-Illinois, Inc.

We have audited Owens-Illinois, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Owens-Illinois, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Owens-Illinois, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Owens-Illinois, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of results of operations, comprehensive income, share owners' equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated February 10, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Toledo, Ohio
February 10, 2015

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to non-officer directors and corporate governance is included in the 2015 Proxy Statement in the sections entitled “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” and such information is incorporated herein by reference.

Information with respect to executive officers is included herein in Item 1.

Code of Business Conduct and Ethics

The Company’s Code of Business Conduct and Ethics, which is applicable to all directors, officers and employees of the Company, including the principal executive officer, the principal financial officer and the principal accounting officer, is available on the Investor Relations section of the Company’s web site (www.o-i.com). A copy of the Code is also available in print to share owners upon request, addressed to the Corporate Secretary at Owens-Illinois, Inc., One Michael Owens Way, Perrysburg, Ohio 43551. The Company intends to post amendments to or waivers from its Code of Business Conduct and Ethics (to the extent applicable to the Company’s directors, executive officers or principal financial officers) at this location on its web site.

ITEM 11. EXECUTIVE COMPENSATION

The section entitled “Executive Compensation,” exclusive of the subsection entitled “Board Compensation Committee Report”, which is included in the 2015 Proxy Statement, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The section entitled “Security Ownership of Certain Beneficial Owners and Management” which is included in the 2015 Proxy Statement is incorporated herein by reference.

The following table summarizes securities authorized for issuance under equity compensation plans as of December 31, 2014.

	Equity Compensation Plan Information		
	(a)	(b)	(c)
<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights(1) (thousands)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (thousands)</u>
Equity compensation plans approved by security holders	2,421	\$26.83	9,902,000
Equity compensation plans not approved by security holders	—	—	—
Total	<u>2,421</u>	<u>\$26.83</u>	<u>9,902,000</u>

(1) Represents options to purchase shares of the Company’s common stock. There are no outstanding warrants or rights.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The section entitled “Director and Executive Compensation and Other Information,” exclusive of the subsection entitled “Board Compensation Committee Report on Executive Compensation,” which is included in the 2015 Proxy Statement, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to principal accountant fees and services is included in the 2015 Proxy Statement in the section entitled “Independent Registered Public Accounting Firm” and such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Index of Financial Statements and Financial Statement Schedules Covered by Report of Independent Auditors.

(a) DOCUMENTS FILED AS PART OF THIS REPORT

1. See Index to Consolidated Financial Statements on page 50 hereof.
2. See Quarterly Results (Unaudited) beginning on page 103 hereof.
3. Financial Statement Schedule:

	<u>10-K Page</u>
For the years ended December 31, 2014, 2013, and 2012:	
II—Valuation and Qualifying Accounts (Consolidated)	S-1
All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule.	
(ii) Separate Financial Statements of Affiliates Whose Securities Are Pledged As Collateral	115

4. See Exhibit Index beginning on page 110 hereof.

EXHIBIT INDEX

<u>S-K Item 601 No.</u>	<u>Document</u>
3.1	— Third Restated Certificate of Incorporation of Owens-Illinois, Inc. (filed as Exhibit 3.1 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2012, File No. 1-9576, and incorporated herein by reference).
3.2	— Third Amended and Restated Bylaws of Owens-Illinois, Inc., (filed as Exhibit 3.1 to Owens-Illinois, Inc.'s Form 8-K dated April 23, 2009, File No. 1-9576, and incorporated herein by reference).
4.1	— Indenture dated as of May 20, 1998, between Owens-Illinois, Inc. and The Bank of New York, as Trustee (filed as Exhibit 4.1 to Owens-Illinois, Inc.'s Form 8-K dated May 20, 1998, File No. 1-9576, and incorporated herein by reference).
4.2	— Officers' Certificate, dated May 20, 1998, establishing the terms of the 7.80% Senior Notes due 2018; including the Form of 7.80% Senior Note due 2018 (filed as Exhibits 4.5 and 4.9, respectively, to Owens-Illinois, Inc.'s Form 8-K dated May 20, 1998, File No. 1-9576, and incorporated herein by reference).
4.3	— Supplemental Indenture, dated as of June 26, 2001 among Owens-Illinois, Inc., Owens-Illinois Group, Inc., Owens-Brockway Packaging, Inc. and The Bank of New York, as Trustee (May 20, 1998 Indenture) (filed as Exhibit 4.1 to Owens-Illinois Inc.'s Form 10-Q for the quarter ended September 30, 2001, File No. 1-9576, and incorporated herein by reference).
4.4	— Indenture, dated as of May 12, 2009, by and among Owens-Brockway Glass Container Inc., the guarantors party thereto and U.S. Bank National Association, as Trustee (filed as Exhibit 4.1 to Owens-Illinois Group, Inc.'s Form 8-K dated May 12, 2009, File No. 33-13061, and incorporated herein by reference).
4.5	— Indenture, dated as of May 7, 2010, by and among Owens-Brockway Glass Container Inc., Owens-Illinois, Inc., the Guarantors party thereto, and U.S. Bank National Association, as trustee, paying agent, registrar and exchange agent (filed as Exhibit 4.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 2010, File No. 1-9576, and incorporated herein by reference).
4.6	— Form of Registration Rights Agreement, dated as of May 7, 2010, by and among Owens-Brockway Glass Container Inc., Owens-Illinois, Inc. and the Initial Purchasers named therein (filed as Exhibit 10.1 to Owens-Illinois Group, Inc.'s Form 8-K dated May 7, 2010, File No. 33-13061, and incorporated herein by reference).
4.7	— Indenture, dated as of September 15, 2010, by and among OI European Group B.V.; the guarantors party thereto; Deutsche Trustee Company Limited as trustee; Deutsche Bank AG, London Branch as principal paying agent and transfer agent; and Deutsche Bank Luxembourg S.A. as the registrar, Luxembourg paying agent and transfer agent, including the form of the Senior Notes (filed as Exhibit 4.1 to Owens-Illinois Group, Inc.'s Form 8-K dated September 10, 2010, File No. 33-13061, and incorporated herein by reference).

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- 4.8 — Credit Agreement, dated as of May 19, 2011, by and among the Borrowers named therein, Owens-Illinois General, Inc., as Borrower’s agent, Deutsche Bank AG, New York Branch, as Administrative Agent, and the other Agents, Arrangers and Lenders named therein (filed as exhibit 4.1 to Owens-Illinois Group, Inc.’s Form 8-K dated May 19, 2011, File No. 33-13061, and incorporated herein by reference).
- 4.9 — First Amendment to Credit Agreement and Consent, dated as of June 18, 2013, by and among the Borrowers named therein, Deutsche Bank AG, New York Branch, as Administrative Agent, and the other Agents, Arrangers and Lenders named therein (filed as exhibit 4.1 to Owens-Illinois Group, Inc.’s Form 10-Q for the quarter ended June 30, 2013, File No. 33-13061, and incorporated herein by reference).
- 4.10 — Third Amended and Restated Intercreditor Agreement, dated as of May 19, 2011, by and among Deutsche Bank AG, New York Branch, as Administrative Agent for the lenders party to the Credit Agreement (as defined therein) and Deutsche Bank Trust Company Americas, as Collateral Agent (as defined therein) and any other parties thereto (filed as exhibit 4.2 to Owens-Illinois Group, Inc.’s Form 8-K dated May 19, 2011, File No. 33-13061, and incorporated herein by reference).
- 4.11 — Third Amended and Restated Pledge Agreement, dated as of May 19, 2011, between Owens-Illinois Group, Inc., Owens-Brockway Packaging, Inc., and Deutsche Bank Trust Company Americas, as Collateral Agent (as defined therein) and any other parties thereto (filed as exhibit 4.3 to Owens-Illinois Group, Inc.’s Form 8-K dated May 19, 2011, File No. 33-13061, and incorporated herein by reference).
- 4.12 — Security Agreement, dated as of May 19, 2011, between Owens-Illinois Group, Inc., each of the direct and indirect subsidiaries of Owens-Illinois Group, Inc. signatory thereto, and Deutsche Bank Trust Company Americas, as Collateral Agent (as defined therein) (filed as exhibit 4.4 to Owens-Illinois Group, Inc.’s Form 8-K dated May 19, 2011, File No. 33-13061, and incorporated herein by reference).
- 4.13 — Indenture dated as of March 22, 2013, by and among OI European Group B.V.; the guarantors party thereto; Deutsche Trustee Company Limited as trustee; Deutsche Bank AG, London Branch as principal paying agent and transfer agent; and Deutsche Bank Luxembourg S.A. as the registrar and Luxembourg transfer agent, including the form of Notes (filed as exhibit 4.1 to Owens-Illinois Group, Inc.’s Form 8-K dated March 22, 2013, File No. 33-13061, and incorporated herein by reference).
- 4.14 — Indenture dated as of December 3, 2014, by and among Owens-Brockway Glass Container Inc., the guarantors party thereto and U.S. Bank National Association, as trustee, including the form of 2022 Senior Notes and the form of 2025 Senior Notes (filed as exhibit 4.1 to Owens-Illinois Group, Inc.’s Form 8-K dated December 3, 2014, File No. 33-13061, and incorporated herein by reference).
- 10.1* — Amended and Restated Owens-Illinois Supplemental Retirement Benefit Plan (filed as Exhibit 10.1 to Owens-Illinois, Inc.’s Form 10-Q for the quarter ended June 30, 1998, File No. 1-9576, and incorporated herein by reference).

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- 10.2* — First Amendment to Amended and Restated Owens-Illinois Supplemental Retirement Benefit Plan (filed as Exhibit 10.3 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2000, File No. 1-9576, and incorporated herein by reference).
- 10.3* — Second Amendment to Amended and Restated Owens-Illinois Supplemental Retirement Benefit Plan (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended March 31, 2002, File No. 1-9576, and incorporated herein by reference).
- 10.4* — Third Amendment to Amended and Restated Owens-Illinois Supplemental Retirement Benefit Plan (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended March 31, 2003, File No. 1-9576, and incorporated herein by reference).
- 10.5* — Owens-Illinois, Inc. Directors Deferred Compensation Plan (filed as Exhibit 10.26 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 1995, File No. 1-9576, and incorporated herein by reference).
- 10.6* — First Amendment to Owens-Illinois, Inc. Directors Deferred Compensation Plan (filed as Exhibit 10.27 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 1995, File No. 1-9576, and incorporated herein by reference).
- 10.7* — Second Amendment to Owens-Illinois, Inc. Directors Deferred Compensation Plan (filed as Exhibit 10.2 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended March 31, 1997, File No. 1-9576, and incorporated herein by reference).
- 10.8* — Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc. (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 1999, File No. 1-9576, and incorporated herein by reference).
- 10.9* — First Amendment to Amended and Restated 1997 Equity Participation Plan of Owens-Illinois, Inc. (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 2002, File No. 1-9576, and incorporated herein by reference).
- 10.10* — Owens-Illinois, Inc. Executive Deferred Savings Plan (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended September 30, 2001, File No. 1-9576, and incorporated herein by reference).
- 10.11* — 2004 Equity Incentive Plan for Directors of Owens-Illinois, Inc. (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended June 30, 2004, File No. 1-9576, and incorporated herein by reference).
- 10.12* — Owens-Illinois 2004 Executive Life Insurance Plan (filed as Exhibit 10.32 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2004, File No. 1-9576, and incorporated herein by reference).
- 10.13* — Owens-Illinois 2004 Executive Life Insurance Plan for Non-U.S. Employees (filed as Exhibit 10.33 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2004, File No. 1-9576, and incorporated herein by reference).
- 10.14* — Amended and Restated Owens-Illinois, Inc. 2005 Incentive Award Plan dated as of April 24, 2009 (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 10-Q for the quarter ended March 31, 2009, File No. 1-9576, and incorporated herein by reference).

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| 10.15* | — Form of Non-Qualified Stock Option Agreement for use under the Owens-Illinois, Inc. 2005 Incentive Award Plan (filed as Exhibit 10.25 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2011, File No. 1-9576, and incorporated herein by reference). |
| 10.16* | — Form of Restricted Stock Agreement for use under the Owens-Illinois, Inc. 2005 Incentive Award Plan (filed as Exhibit 10.30 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2005, File No. 1-9576, and incorporated herein by reference). |
| 10.17* | — Form of Phantom Stock Agreement for use under the Owens-Illinois, Inc. 2005 Incentive Award Plan (filed as Exhibit 10.31 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2005, File No. 1-9576, and incorporated herein by reference). |
| 10.18* | — Form of Restricted Stock Unit Agreement for use under the Owens-Illinois, Inc. 2005 Incentive Award Plan (filed as Exhibit 10.28 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2011, File No. 1-9576, and incorporated herein by reference). |
| 10.19* | — Form of Performance Share Unit Agreement for use under the Owens-Illinois, Inc. 2005 Incentive Award Plan (filed as Exhibit 10.29 to Owens-Illinois, Inc.'s Form 10-K for the year ended December 31, 2011, File No. 1-9576, and incorporated herein by reference). |
| 10.20* | — Amended and restated letter agreement between Owens-Illinois, Inc. and Albert P.L. Stroucken (filed as Exhibit 10.1 to Owens-Illinois, Inc.'s Form 8-K dated October 26, 2011, File No. 1-9576, and incorporated herein by reference). |
| 10.21* | — Second Amended and Restated Owens-Illinois, Inc. 2005 Incentive Award Plan (filed as Appendix B to Owens-Illinois, Inc.'s Definitive Proxy Statement on Schedule 14A filed March 31, 2014, File No. 1-9576, and incorporated herein by reference). |
| 12 | — Computation of Ratio of Earnings to Fixed Charges (filed herewith). |
| 21 | — Subsidiaries of Owens-Illinois, Inc. (filed herewith). |
| 23 | — Consent of Independent Registered Public Accounting Firm (filed herewith). |
| 24 | — Owens-Illinois, Inc. Power of Attorney (filed herewith). |
| 31.1 | — Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 31.2 | — Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32.1 | — Certification of Principal Executive Officer pursuant to 18 U.S.C Section 1350 (filed herewith). |
| 32.2 | — Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350 (filed herewith). |

S-K Item 601 No.**Document**

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| 101 | — | Financial statements from the annual report on Form 10-K of Owens-Illinois, Inc. for the year ended December 31, 2014, formatted in XBRL: (i) the Consolidated Results of Operations, (ii) the Consolidated Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Share Owners' Equity, (v) the Consolidated Cash Flows and (vi) the Notes to Consolidated Financial Statements. |
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* Indicates a management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 15(c).

SEPARATE FINANCIAL STATEMENTS OF AFFILIATES WHOSE SECURITIES ARE PLEDGED AS COLLATERAL.

- 1) Financial statements of Owens-Brockway Packaging, Inc. and subsidiaries including consolidated balance sheets as of December 31, 2014 and 2013, and the related results of operations, comprehensive income, share owners' equity, and cash flows for the years ended December 31, 2014, 2013 and 2012.
- 2) Financial statements of Owens-Brockway Glass Container Inc. and subsidiaries including consolidated balance sheets as of December 31, 2014 and 2013, and the related results of operations, comprehensive income, share owners' equity, and cash flows for the years ended December 31, 2014, 2013 and 2012.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Share Owner of
Owens-Brockway Packaging, Inc.

We have audited the accompanying consolidated balance sheets of Owens-Brockway Packaging, Inc. (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of results of operations, comprehensive income, share owners' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Owens-Brockway Packaging, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP
Toledo, Ohio
February 10, 2015

Owens-Brockway Packaging, Inc.
CONSOLIDATED RESULTS OF OPERATIONS
Dollars in millions

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales	\$ 6,784	\$ 6,967	\$ 7,000
Cost of goods sold	<u>(5,523)</u>	<u>(5,621)</u>	<u>(5,615)</u>
Gross profit	1,261	1,346	1,385
Selling and administrative expense	(412)	(429)	(482)
Research, development and engineering expense	(63)	(62)	(62)
Equity earnings	64	67	64
Interest expense, net	(210)	(210)	(219)
Other expense, net	<u>(138)</u>	<u>(123)</u>	<u>(93)</u>
Earnings from continuing operations before income taxes	502	589	593
Provision for income taxes	<u>(93)</u>	<u>(120)</u>	<u>(114)</u>
Earnings from continuing operations	409	469	479
Loss from discontinued operations	<u>(4)</u>	<u>(10)</u>	<u>(5)</u>
Net earnings	405	459	474
Net earnings attributable to noncontrolling interests	<u>(28)</u>	<u>(13)</u>	<u>(34)</u>
Net earnings attributable to the Company	<u>\$ 377</u>	<u>\$ 446</u>	<u>\$ 440</u>
Amounts attributable to the Company:			
Earnings from continuing operations	\$ 381	\$ 456	\$ 445
Loss from discontinued operations	<u>(4)</u>	<u>(10)</u>	<u>(5)</u>
Net earnings	<u>\$ 377</u>	<u>\$ 446</u>	<u>\$ 440</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Brockway Packaging, Inc.
CONSOLIDATED COMPREHENSIVE INCOME
Dollars in millions

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net earnings	\$ 405	\$ 459	\$ 474
Other comprehensive income (loss):			
Foreign currency translation adjustments	(305)	(232)	(26)
Pension and other postretirement benefit adjustments, net of tax	112	35	(184)
Change in fair value of derivative instruments	1	2	5
Other comprehensive income (loss)	<u>(192)</u>	<u>(195)</u>	<u>(205)</u>
Total comprehensive income	213	264	269
Comprehensive income attributable to noncontrolling interests	<u>(7)</u>	<u>(7)</u>	<u>(42)</u>
Comprehensive income attributable to the Company	<u>\$ 206</u>	<u>\$ 257</u>	<u>\$ 227</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Brockway Packaging, Inc.
CONSOLIDATED BALANCE SHEETS
Dollars in millions

<u>December 31,</u>	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash, including time deposits of \$103 (\$61 in 2013)	\$ 483	\$ 356
Receivables	737	942
Inventories	1,035	1,117
Prepaid expenses	62	100
Total current assets	<u>2,317</u>	<u>2,515</u>
Other assets:		
Equity investments	427	315
Pension assets	22	22
Other assets	621	702
Goodwill	1,893	2,059
Total other assets	<u>2,963</u>	<u>3,098</u>
Property, plant and equipment:		
Land, at cost	221	249
Buildings and equipment, at cost:		
Buildings and building equipment	1,055	1,153
Factory machinery and equipment	4,296	4,646
Transportation, office and miscellaneous equipment	85	100
Construction in progress	160	212
Less accumulated depreciation	<u>3,405</u>	<u>3,763</u>
Net property, plant and equipment	<u>2,412</u>	<u>2,597</u>
Total assets	<u>\$7,692</u>	<u>\$8,210</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Brockway Packaging, Inc.
CONSOLIDATED BALANCE SHEETS (Continued)
Dollars in millions

<u>December 31,</u>	<u>2014</u>	<u>2013</u>
Liabilities and Share Owners' Equity		
Current liabilities:		
Accounts payable including amount to related parties of \$7 (\$1 in 2013)	\$1,128	\$1,132
Salaries and wages	135	155
U.S. and foreign income taxes	43	40
Other accrued liabilities	322	381
Short-term loans	127	306
Long-term debt due within one year	361	15
Total current liabilities	<u>2,116</u>	<u>2,029</u>
External long-term debt	2,711	2,983
Deferred taxes	133	232
Pension benefits	230	304
Nonpension postretirement benefits	78	86
Other liabilities	207	261
Share owners' equity:		
Investment by and advances from Parent	2,408	2,305
Accumulated other comprehensive income (loss)	(308)	(137)
Total share owner's equity of the Company	<u>2,100</u>	<u>2,168</u>
Noncontrolling interests	117	147
Total share owners' equity	<u>2,217</u>	<u>2,315</u>
Total liabilities and share owners' equity	<u>\$7,692</u>	<u>\$8,210</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Brockway Packaging, Inc.
CONSOLIDATED SHARE OWNERS' EQUITY
Dollars in millions

	Share Owner's Equity of the Company			Total Share Owners' Equity
	Investment by and Advances from Parent	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	
Balance on January 1, 2012	1,957	265	153	2,375
Net intercompany transactions	(255)			(255)
Net earnings	440		34	474
Other comprehensive income (loss)		(213)	8	(205)
Contribution from noncontrolling interests			3	3
Distributions to noncontrolling interests			(24)	(24)
Balance on December 31, 2012	2,142	52	174	2,368
Net intercompany transactions	(283)			(283)
Net earnings	446		13	459
Other comprehensive loss		(189)	(6)	(195)
Contribution from noncontrolling interests			5	5
Distributions to noncontrolling interests			(22)	(22)
Deconsolidation of subsidiary			(17)	(17)
Balance on December 31, 2013	2,305	(137)	147	2,315
Net intercompany transactions	(274)			(274)
Net earnings	377		28	405
Other comprehensive loss		(171)	(21)	(192)
Distributions to noncontrolling interests			(37)	(37)
Balance on December 31, 2014	<u>\$2,408</u>	<u>\$(308)</u>	<u>\$117</u>	<u>\$2,217</u>

See accompanying Notes to the Consolidated Financial Statements

Owens-Brockway Packaging, Inc.
CONSOLIDATED CASH FLOWS
Dollars in millions

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating activities:			
Net earnings	\$ 405	\$ 459	\$ 474
Loss from discontinued operations	4	10	5
Non-cash charges (credits):			
Depreciation	331	345	374
Amortization of intangibles and other deferred items	75	40	27
Amortization of finance fees and debt discount	20	32	33
Deferred tax benefit	(18)	(3)	(3)
Restructuring, asset impairment and related charges	76	119	159
Non-income tax charge	69		
Gain on China land compensation			(61)
Other	(91)	36	(58)
Cash paid for restructuring activities	(58)	(78)	(65)
Change in non-current assets and liabilities	(25)	(134)	(54)
Change in components of working capital	158	124	(9)
	<u>946</u>	<u>950</u>	<u>822</u>
Cash provided by continuing operating activities	946	950	822
Cash utilized in discontinued operating activities	(4)	(10)	(5)
Total cash provided by operating activities	<u>942</u>	<u>940</u>	<u>817</u>
Investing activities:			
Additions to property, plant and equipment	(369)	(360)	(290)
Acquisitions, net of cash acquired	(113)	(4)	(5)
Net cash proceeds related to sale of assets and other	16	10	95
Net activity for non-controlling partner loans	9	(16)	(21)
Deconsolidation of subsidiary		(32)	
	<u>(457)</u>	<u>(402)</u>	<u>(221)</u>
Cash utilized in investing activities	(457)	(402)	(221)
Financing activities:			
Additions to long-term debt	1,226	768	119
Repayments of long-term debt	(1,100)	(1,040)	(401)
Increase (decrease) in short-term loans	(139)	8	(38)
Net receipts from (distribution to) parent	(274)	(283)	(255)
Net foreign exchange derivative activity	(2)	(24)	27
Payment of finance fees	(11)	(7)	(1)
Contribution from noncontrolling interests		5	3
Distributions to noncontrolling interests	(37)	(22)	(24)
	<u>(337)</u>	<u>(595)</u>	<u>(570)</u>
Cash utilized in financing activities	(337)	(595)	(570)
Effect of exchange rate fluctuations on cash	(21)	(7)	16
Increase (decrease) in cash	127	(64)	42
Cash at beginning of year	356	420	378
Cash at end of year	<u>\$ 483</u>	<u>\$ 356</u>	<u>\$ 420</u>

See accompanying Notes to Consolidated Financial Statements.

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Tabular data dollars in millions

1. Significant Accounting Policies

Basis of Consolidated Statements The consolidated financial statements of Owens-Brockway Packaging, Inc. (the “Company”) include the accounts of its subsidiaries. Newly acquired subsidiaries have been included in the consolidated financial statements from dates of acquisition.

The Company uses the equity method of accounting for investments in which it has a significant ownership interest, generally 20% to 50%. Other investments are accounted for at cost. The Company monitors other than temporary declines in fair value and records reductions in carrying values when appropriate.

Relationship with Owens-Illinois Group, Inc. and Owens-Illinois, Inc. The Company is a 100%-owned subsidiary of Owens-Illinois Group, Inc. (“OI Group”) and an indirect subsidiary of Owens-Illinois, Inc. (“OI Inc.”). Although OI Inc. does not conduct any operations, it has substantial obligations related to outstanding indebtedness and asbestos-related payments. OI Inc. relies primarily on distributions from its direct and indirect subsidiaries to meet these obligations.

For federal and certain state income tax purposes, the taxable income of the Company is included in the consolidated tax returns of OI Inc. and income taxes are allocated to the Company on a basis consistent with separate returns.

Nature of Operations The Company is a leading manufacturer of glass container products. The Company’s principal product lines are glass containers for the food and beverage industries. The Company has glass container operations located in 21 countries. The principal markets and operations for the Company’s products are in Europe, North America, South America and Asia Pacific.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates, at which time the Company would revise its estimates accordingly.

Foreign Currency Translation The assets and liabilities of non-U.S. subsidiaries are translated into U.S. dollars at year-end exchange rates. Any related translation adjustments are recorded in accumulated other comprehensive income in share owners’ equity.

Revenue Recognition The Company recognizes sales, net of estimated discounts and allowances, when the title to the products and risk of loss are transferred to customers. Provisions for rebates to customers are provided in the same period that the related sales are recorded.

Shipping and Handling Costs Shipping and handling costs are included with cost of goods sold in the Consolidated Results of Operations.

Cash The Company defines “cash” as cash and time deposits with maturities of three months or less when purchased. Outstanding checks in excess of funds on deposit are included in accounts payable.

Accounts Receivable Receivables are stated at amounts estimated by management to be the net realizable value. The Company charges off accounts receivable when it becomes apparent based upon age or customer circumstances that amounts will not be collected.

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

1. Significant Accounting Policies (Continued)

Allowance for Doubtful Accounts The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk.

Inventory Valuation Inventories are valued at the lower of average costs or market.

Goodwill Goodwill represents the excess of cost over fair value of net assets of businesses acquired. Goodwill is evaluated annually, as of October 1, for impairment or more frequently if an impairment indicator exists.

Intangible Assets and Other Long-Lived Assets Intangible assets are amortized over the expected useful life of the asset. Amortization expense directly attributed to the manufacturing of the Company's products is included in cost of goods sold. Amortization expense related to non-manufacturing activities is included in selling and administrative and other. The Company evaluates the recoverability of intangible assets and other long-lived assets based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

Property, Plant and Equipment Property, plant and equipment ("PP&E") is carried at cost and includes expenditures for new facilities and equipment and those costs which substantially increase the useful lives or capacity of existing PP&E. In general, depreciation is computed using the straight-line method and recorded over the estimated useful life of the asset. Factory machinery and equipment is depreciated over periods ranging from 5 to 25 years with the majority of such assets (principally glass-melting furnaces and forming machines) depreciated over 7 to 15 years. Buildings and building equipment are depreciated over periods ranging from 10 to 50 years. Depreciation expense directly attributed to the manufacturing of the Company's products is included in cost of goods sold. Depreciation expense related to non-manufacturing activities is included in selling and administrative. Depreciation expense includes the amortization of assets recorded under capital leases. Maintenance and repairs are expensed as incurred. Costs assigned to PP&E of acquired businesses are based on estimated fair values at the date of acquisition. The Company evaluates the recoverability of PP&E based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

Derivative Instruments The Company uses forward exchange contracts, options and commodity forward contracts to manage risks generally associated with foreign exchange rate and commodity market volatility. Derivative financial instruments are included on the balance sheet at fair value. When appropriate, derivative instruments are designated as and are effective as hedges, in accordance with accounting principles generally accepted in the United States. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. The Company does not enter into derivative financial instruments for trading purposes and is not a party to leveraged derivatives. Cash flows from short-term forward exchange contracts not designated as hedges are classified as a financing activity. Cash flows of commodity forward contracts are classified as operating activities.

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

1. Significant Accounting Policies (Continued)

Fair Value Measurements Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Generally accepted accounting principles defined a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs for which there is little or no market data, which requires the Company to develop assumptions.

The carrying amounts reported for cash and short-term loans approximate fair value. In addition, carrying amounts approximate fair value for certain long-term debt obligations subject to frequently redetermined interest rates. Fair values for the Company's significant fixed rate debt obligations are generally based on published market quotations.

The Company's derivative assets and liabilities 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.

Reclassifications Certain reclassifications of prior years' data have been made to conform to the current year presentation.

New Accounting Standards 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 will become 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.

Participation in OI Inc. Stock Option Plans and Other Stock Based Compensation The Company participates in the equity compensation plans of OI Inc. under which employees of the Company may be granted options to purchase common shares of OI Inc., restricted common shares of OI Inc., or restricted share units of OI Inc.

Stock Options

Options granted prior to March 22, 2005, all of which are exercisable, expire following termination of employment or the day after the tenth anniversary date of the option grant.

For options granted after March 21, 2005, no options may be exercised in whole or in part during the first year after the date granted. In general, subject to change in control, these options become

Owens-Brockway Packaging, Inc.
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1. Significant Accounting Policies (Continued)

exercisable 25% per year beginning on the first anniversary. In general, options expire following termination of employment or the seventh anniversary of the option grant. The fair value of options granted after March 21, 2005, is amortized over the vesting periods which range from one to four years.

Restricted Shares and Restricted Share Units

Shares granted to employees prior to March 22, 2005, generally vest after three years or upon retirement, whichever is later. Shares granted after March 21, 2005 and prior to 2011, vest 25% per year beginning on the first anniversary and unvested shares are forfeited upon termination of employment. Restricted share units granted to employees after 2010 vest 25% per year beginning on the first anniversary. Holders of vested restricted share units receive one share of OI Inc.'s common stock for each unit. Granted but unvested restricted share units are forfeited upon termination, unless certain retirement criteria are met.

The fair value of the restricted shares and restricted share units is equal to the market price of OI Inc.'s common stock on the date of the grant. The fair value of restricted shares granted before March 22, 2005, is amortized ratably over the vesting period. The fair value of restricted shares and restricted share units granted after March 21, 2005, is amortized over the vesting periods which range from one to four years.

Performance Vested Restricted Share Units

Performance vested restricted share units vest on January 1 of the third year following the year in which they are granted. Holders of vested units may receive up to 2 shares of OI Inc.'s common stock for each unit, depending upon the attainment of consolidated performance goals established by the Compensation Committee of OI Inc.'s Board of Directors. If minimum goals are not met, no shares will be issued. Granted but unvested restricted share units are forfeited upon termination of employment, unless certain retirement criteria are met.

The fair value of each performance vested restricted share unit is equal to the product of the fair value of OI Inc.'s common stock on the date of grant and the estimated number of shares into which the performance vested restricted share unit will be converted. The fair value of performance vested restricted share units is amortized ratably over the vesting period. Should the estimated number of shares into which the performance vested restricted share unit will be converted change, an adjustment will be recorded to recognize the accumulated difference in amortization between the revised and previous estimates.

As discussed in Note 21, costs incurred under these plans by OI Inc. related to stock-based compensation awards granted directly to the Company's employees are included in the allocable costs charged to the Company and other operating subsidiaries of OI Inc. on an intercompany basis.

2. 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

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Segment Information (Continued)

reported with Other. These include licensing, equipment manufacturing, global engineering, and non-glass equity investments.

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. The Company's management uses segment operating profit, in combination with selected cash flow information, to evaluate performance and to allocate resources. Segment operating profit for 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 regarding the Company's reportable segments is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales:			
Europe	\$2,794	\$2,787	\$2,717
North America	2,003	2,002	1,966
South America	1,159	1,186	1,252
Asia Pacific	<u>793</u>	<u>966</u>	<u>1,028</u>
Reportable segment totals	6,749	6,941	6,963
Other	<u>35</u>	<u>26</u>	<u>37</u>
Net sales	<u>\$6,784</u>	<u>\$6,967</u>	<u>\$7,000</u>
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Segment operating profit:			
Europe	\$ 353	\$ 305	\$ 307
North America	240	307	288
South America	227	204	227
Asia Pacific	<u>88</u>	<u>131</u>	<u>113</u>
Reportable segment totals	908	947	935
Items excluded from segment operating profit:			
Other	(1)	(29)	(25)
Restructuring, asset impairment and other charges	(91)	(119)	(159)
Non-income tax charge	(69)		
Pension Settlement charges	(35)		
Gain on China land compensation			61
Interest expense, net	<u>(210)</u>	<u>(210)</u>	<u>(219)</u>
Earnings (loss) from continuing operations before income taxes	<u>\$ 502</u>	<u>\$ 589</u>	<u>\$ 593</u>

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Segment Information (Continued)

	Europe	North America	South America	Asia Pacific	Reportable Segment Totals	Other	Consolidated Totals
Total assets:							
2014	\$3,224	\$1,963	\$1,300	\$1,018	\$7,505	\$187	\$7,692
2013	3,509	1,986	1,467	1,150	8,112	98	8,210
2012	3,362	1,986	1,655	1,349	8,352	106	8,458
Equity investments:							
2014	\$ 81	\$ 24	\$ —	\$ 153	\$ 258	\$169	\$ 427
2013	84	25		155	264	51	315
2012	63	25		165	253	41	294
Equity earnings:							
2014	\$ 19	\$ 17	\$ —	\$ 4	\$ 40	\$ 24	\$ 64
2013	17	16		10	43	24	67
2012	15	16		5	36	28	64
Capital expenditures:							
2014	\$ 188	\$ 89	\$ 55	\$ 34	\$ 366	\$ 3	\$ 369
2013	130	100	80	36	346	14	360
2012	87	68	75	49	279	11	290
Depreciation and amortization expense:							
2014	\$ 140	\$ 131	\$ 79	\$ 53	\$ 403	\$ 3	\$ 406
2013	139	110	72	62	383	2	385
2012	150	107	70	70	397	4	401

The Company's net property, plant and equipment by geographic segment are as follows:

	U.S.	Non-U.S.	Total
2014	\$678	\$1,734	\$2,412
2013	651	1,946	2,597
2012	624	2,106	2,730

The Company's net sales by geographic segment are as follows:

	U.S.	Non-U.S.	Total
2014	\$1,852	\$4,932	\$6,784
2013	1,809	5,158	6,967
2012	1,780	5,220	7,000

Operations outside the U.S. that accounted for more than 10% of consolidated net sales from continuing operations were in France (2014—11%, 2013—11%, 2012—11%).

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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3. Receivables

Receivables consist of the following at December 31, 2014 and 2013:

	2014	2013
Trade accounts receivable	\$584	\$757
Less: allowances for doubtful accounts and discounts	33	38
Net trade receivables	551	719
Other receivables	186	223
	\$737	\$942

The Company uses various factoring programs to sell certain receivables to financial institutions as part of managing its cash flows. At December 31, 2014 and 2013, the amount of receivables sold by the Company was \$276 million and \$192 million, respectively. Any continuing involvement with the sold receivables is immaterial.

4. Inventories

Major classes of inventory are as follows:

	2014	2013
Finished goods	\$ 884	\$ 958
Raw materials	110	113
Operating supplies	41	46
	\$1,035	\$1,117

5. Equity Investments

At December 31, 2014 the Company's ownership percentage in equity associates include:

Affiliates	O-I Ownership Percentage	Business Type
BJC O-I Glass Pte. Ltd.	50%	Glass container manufacturer
CO Vidrieria SARL	50%	Glass container manufacturer
Rocky Mountain Bottle Company	50%	Glass container manufacturer
Tata Chemical (Soda Ash) Partners	25%	Soda ash supplier
Vetriere Meridionali SpA ("VeMe")	50%	Glass container manufacturer
Vetri Speciali SpA	50%	Speciality glass manufacturer

During the fourth quarter of 2014, the Company entered into a joint venture agreement with Constellation Brands, Inc. to operate a glass container plant in Nava, Mexico. The Company has determined the accounting for the investment and returns as an equity joint venture.

During the fourth quarter of 2013, changes were made to the VeMe joint venture agreement that resulted in the Company relinquishing control of the joint venture and, therefore, deconsolidating the entity. No gain or loss was recognized related to the deconsolidation as the fair value of the entity was

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. Equity Investments (Continued)

equal to the carrying amount of the entity's assets and liabilities. The fair value, which the Company classified as Level 3 in the fair value hierarchy, was computed using a discounted cash flow analysis based on projected future cash flows of the joint venture.

Summarized information pertaining to the Company's equity associates follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Equity in earnings:			
Non-U.S.	\$23	\$27	\$20
U.S.	<u>41</u>	<u>40</u>	<u>44</u>
Total	<u>\$64</u>	<u>\$67</u>	<u>\$64</u>
Dividends received	<u>\$54</u>	<u>\$67</u>	<u>\$50</u>

Summarized combined financial information for equity associates is as follows (unaudited):

	<u>2014</u>	<u>2013</u>	
At end of year:			
Current assets	\$ 479	\$419	
Non-current assets	<u>718</u>	<u>528</u>	
Total assets	1,197	947	
Current liabilities	217	224	
Other liabilities and deferred items	<u>191</u>	<u>193</u>	
Total liabilities and deferred items	<u>408</u>	<u>417</u>	
Net assets	<u>\$ 789</u>	<u>\$530</u>	
For the year:	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales	<u>\$752</u>	<u>\$699</u>	<u>\$658</u>
Gross profit	<u>\$198</u>	<u>\$185</u>	<u>\$191</u>
Net earnings	<u>\$150</u>	<u>\$149</u>	<u>\$143</u>

The Company purchased approximately \$188 million and \$133 million from equity affiliates in 2014 and 2013, respectively, and owed approximately \$79 million and \$42 million to equity affiliates as of December 31, 2014 and 2013, respectively.

There is a difference of approximately \$9 million as of December 31, 2014 between the amount at which certain investments are carried and the amount of underlying equity in net assets. The portion of the difference related to inventory or amortizable assets is amortized as a reduction of the equity earnings. The remaining difference is considered goodwill.

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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6. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2014, 2013 and 2012 are as follows:

	<u>Europe</u>	<u>North America</u>	<u>South America</u>	<u>Other</u>	<u>Total</u>
Balance as of January 1, 2012	983	740	354	5	2,082
Translation effects	23	3	(29)	—	(3)
Balance as of December 31, 2012	1,006	743	325	5	2,079
Translation effects	38	(9)	(49)	—	(20)
Balance as of December 31, 2013	1,044	734	276	5	2,059
Translation effects	(118)	(11)	(37)	—	(166)
Balance as of December 31, 2014	<u>\$ 926</u>	<u>\$723</u>	<u>\$239</u>	<u>\$5</u>	<u>\$1,893</u>

Goodwill for the Asia Pacific segment is \$0 and net of accumulated impairment losses of \$1,135 million as of December 31, 2014, 2013 and 2012.

Goodwill is tested for impairment annually as of October 1 (or more frequently if impairment indicators arise) using a two-step process. Step 1 compares the business enterprise value (“BEV”) of each reporting unit with its carrying value. The BEV is computed based on estimated future cash flows, discounted at the weighted average cost of capital of a hypothetical third-party buyer. If the BEV is less than the carrying value for any reporting unit, then Step 2 must be performed. Step 2 compares the implied fair value of goodwill with the carrying amount of goodwill. Any excess of the carrying value of the goodwill over the implied fair value will be recorded as an impairment loss. The calculations of the BEV in Step 1 and the implied fair value of goodwill in Step 2 are based on significant unobservable inputs, such as price trends, customer demand, material costs, discount rates and asset replacement costs, and are classified as Level 3 in the fair value hierarchy.

During the fourth quarter of 2014, the Company completed its annual impairment testing and determined that no impairment existed.

7. Other Assets

Other assets consist of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Deferred tax assets	\$203	\$235
Deferred returnable packaging costs	126	124
Repair part inventories	107	116
Non-income tax receivable	58	70
Capitalized software	37	39
Deferred finance fees	20	32
Intangibles	18	23
Other	52	63
	<u>\$621</u>	<u>\$702</u>

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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8. 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 value 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 Forward Contracts Designated as Cash Flow Hedges

In North America, the Company enters into commodity forward contracts related to forecasted natural gas requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. The Company continually evaluates the natural gas market and related price risk and periodically enters into commodity forward contracts in order to hedge a portion of its usage requirements. The majority of the 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. At December 31, 2014 and 2013, the Company had entered into commodity forward contracts covering approximately 450,000 MM BTUs and 5,400,000 MM BTUs, respectively, primarily related to customer requests to lock the price of natural gas.

The Company accounts for the above forward contracts as cash flow hedges at December 31, 2014 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 loss of less than \$1 million at December 31, 2014 and an unrecognized gain of \$1 million at December 31, 2013 related to the commodity forward contracts were included in Accumulated OCI, and will be reclassified into earnings over the next twelve to twenty-four 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 year ended December 31, 2014 and 2013 was not material.

The effect of the commodity forward contracts on the results of operations for the years ended December 31, 2014, 2013 and 2012 is as follows:

<u>Amount of Gain (Loss) recognized in OCI on Commodity Forward Contracts (Effective Portion)</u>			<u>Amount of Gain (Loss) reclassified from Accumulated OCI into Income (reported in cost of goods sold) (Effective Portion)</u>		
<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
\$3	\$1	\$(3)	\$2	\$(1)	\$(8)

Foreign Exchange Derivative Contracts not Designated as Hedging Instruments

The Company 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

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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8. Derivative Instruments (Continued)

commodities that are denominated in currencies other than the subsidiaries' functional currency. The Company may also use forward exchange agreements to offset the foreign currency risk for receivables and payables, including intercompany receivables, payables and loans, 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 December 31, 2014 and 2013, the Company had outstanding forward exchange and option agreements denominated in various currencies covering the equivalent of approximately \$524 million and \$550 million, respectively, related primarily to intercompany transactions and loans.

The effect of the foreign exchange derivative contracts on the results of operations for the years ended December 31, 2014, 2013 and 2012 is as follows:

<u>Location of Gain (Loss) Recognized in Income on Foreign Exchange Contracts</u>	<u>Amount of Gain (Loss) Recognized in Income on Foreign Exchange Contracts</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Other expense	\$(8)	\$(28)	\$6

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) deposits, receivables, and other assets if the instrument has a positive fair value and maturity after one year, and (c) other accrued liabilities or other liabilities (current) if the instrument has a negative fair value and maturity within one year. The following table shows the amount and classification (as noted above) of the Company's derivatives as of December 31, 2014 and 2013:

	<u>Balance Sheet Location</u>	<u>Fair Value</u>	
		<u>2014</u>	<u>2013</u>
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Commodity futures contracts	a	\$—	\$1
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	a	<u>10</u>	<u>3</u>
Total asset derivatives		<u>\$10</u>	<u>\$4</u>
Liability Derivatives:			
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	c	<u>4</u>	<u>7</u>
Total liability derivatives		<u>\$ 4</u>	<u>\$7</u>

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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9. Restructuring Accruals, Asset Impairments and Other Costs Related to Closed Facilities

The Company continually reviews its manufacturing footprint and operating cost structure and may decide to close operations or reduce headcount to gain efficiencies, integrate acquired operations and reduce future expenses. The Company incurs costs associated with these actions including employee severance and benefits, other exit costs such as those related to contract terminations, and asset impairment charges. The Company also may incur other costs related to closed facilities including environmental remediation, clean up, dismantling and preparation for sale or other disposition.

The Company accounts for restructuring and other costs under applicable provisions of generally accepted accounting principles. Charges for employee severance and related benefits are generally accrued based on contractual arrangements with employees or their representatives. Other exit costs are accrued based on the estimated cost to settle related contractual arrangements. Estimated environmental remediation costs are accrued when specific claims have been received or are probable of being received.

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 as Level 3 in the fair value hierarchy as set forth in the general accounting principles for fair value measurements.

When a decision is made to take these actions, the Company manages and accounts for them programmatically apart from the on-going operations of the business. Information related to major programs (as in the case of the European Asset Optimization and Asia Pacific Restructuring programs below) are presented separately. Minor initiatives are presented on a combined basis as Other Restructuring Actions. When charges related to major programs are completed, remaining accrual balances are classified with Other Restructuring Actions.

European Asset Optimization

Since 2011, the Company has implemented the European Asset Optimization program to increase the efficiency and capability of its European operations and to better align its European manufacturing footprint with market and customer needs. This program involves making additional investments in certain facilities and addressing assets with higher cost structures. As part of this program, the Company recorded charges of \$1 million in 2014, \$16 million in 2013 and \$86 million in 2012 for employee costs, write-down of assets, and environmental remediation related to decisions to close furnaces and manufacturing facilities in Europe. The Company expects to execute further actions under this program in phases over the next several years.

Asia Pacific Restructuring

Since 2011, the Company has implemented a restructuring plan in its Asia Pacific segment, primarily related to aligning its supply base with lower demand in the region. As part of this plan, the Company recorded charges of \$73 million, \$49 million and \$47 million for the years ended 2014, 2013 and 2012, respectively, for employee costs, write-down of assets, and pension charges related to furnace closures and additional restructuring activities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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9. Restructuring Accruals, Asset Impairments and Other Costs Related to Closed Facilities (Continued)

Other Restructuring Actions

The Company took certain other restructuring actions and recorded charges in 2014 of \$2 million for employee costs related to global headcount reduction initiatives. In 2013, there were charges of \$16 million for employee costs related to the closure of flat glass operations in South America, \$13 million for employee costs related to global headcount reduction initiatives, and \$3 million for miscellaneous other costs. In 2012, the Company recorded charges of \$13 million for employee costs and asset impairments related to a decision to close a machine manufacturing facility in the U.S., \$7 million for employee costs and asset impairments related to a decision to close a mold shop in South America and \$15 million for miscellaneous other costs.

The following table presents information related to restructuring, asset impairment and other costs related to closed facilities:

	<u>European Asset Optimization</u>	<u>Asia Pacific Restructuring</u>	<u>Other Restructuring Actions</u>	<u>Total Restructuring</u>
Balance at January 1, 2013	53	6	62	121
2013 charges	16	49	32	97
Write-down of assets to net realizable value	(3)	(11)	(2)	(16)
Net cash paid, principally severance and related benefits	(37)	(16)	(25)	(78)
Pension charges transferred to other accounts . . .		(6)		(6)
Other, including foreign exchange translation . . .	<u>1</u>	<u>(2)</u>	<u>(5)</u>	<u>(6)</u>
Balance at December 31, 2013	30	20	62	112
2014 charges	1	73	2	76
Write-down of assets to net realizable value		(46)		(46)
Net cash paid, principally severance and related benefits	(12)	(20)	(26)	(58)
Pension charges transferred to other accounts . . .		(7)		(7)
Other, including foreign exchange translation . . .	<u>(7)</u>	<u>(8)</u>	<u>(4)</u>	<u>(19)</u>
Balance at December 31, 2014	<u>\$ 12</u>	<u>\$ 12</u>	<u>\$ 34</u>	<u>\$ 58</u>

The restructuring accrual balance represents the Company's estimates of the remaining future cash amounts to be paid related to the actions noted above. As of December 31, 2014, the Company's estimates include approximately \$28 million for severance and related benefits costs, \$26 million for environmental remediation costs, and \$4 million for other exit costs.

10. Pension Benefit Plans and Other Postretirement Benefits

Pension Benefit Plans

The Company participates in OI Inc.'s defined benefit pension plans for a substantial number of employees located in the United States. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. OI Inc.'s policy is to fund pension plans such

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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

that sufficient assets will be available to meet future benefit requirements. Independent actuaries determine pension costs for each subsidiary of OI Inc. included in the plans; however, accumulated benefit obligation information and plan assets pertaining to each subsidiary have not been separately determined. As such, the accumulated benefit obligation and the plan assets related to the pension plans for domestic employees have been retained by another subsidiary of OI Inc. Net expense to results of operations for the Company's allocated portion of the domestic pension costs amounted to \$19 million in 2014, \$48 million in 2013 and \$20 million in 2012.

OI Inc. also sponsors several defined contribution plans for all salaried and hourly U.S. employees of the Company. Participation is voluntary and participants' contributions are based on their compensation. OI Inc. matches contributions of participants, up to various limits, in substantially all plans. OI Inc. charges the Company for its share of the match. The Company's share of the contributions to these plans amounted to \$17 million in 2014, \$13 million in 2013 and \$14 million in 2012.

The Company also has defined benefit pension plans covering a substantial number of employees in several non-U.S. jurisdictions. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. The Company's policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. The Company's defined benefit pension plans use a December 31 measurement date.

The changes in the non-U.S. pension plans benefit obligations for the year were as follows:

	<u>2014</u>	<u>2013</u>
Obligations at beginning of year	\$1,866	\$1,911
Change in benefit obligations:		
Service cost	23	33
Interest cost	69	72
Actuarial (gain) loss, including the effect of change in discount rates	131	(5)
Curtailment and plan amendment	(567)	(52)
Participant contributions	5	7
Benefit payments	(91)	(101)
Foreign currency translation	(125)	1
Net change in benefit obligations	<u>(555)</u>	<u>(45)</u>
Obligations at end of year	<u>\$1,311</u>	<u>\$1,866</u>

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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The changes in the fair value of the non-U.S. pension plans' assets for the year were as follows:

	<u>2014</u>	<u>2013</u>
Fair value at beginning of year	\$1,578	\$1,527
Change in fair value:		
Actual gain on plan assets	188	61
Benefit payments	(91)	(101)
Employer contributions	28	92
Participant contributions	5	7
Settlements	(519)	
Foreign currency translation	(94)	(5)
Other	(1)	(3)
Net change in fair value of assets	<u>(484)</u>	<u>51</u>
Fair value at end of year	<u>\$1,094</u>	<u>\$1,578</u>

The funded status of the non-U.S. pension plans at year end was as follows:

	<u>2014</u>	<u>2013</u>
Plan assets at fair value	\$1,094	\$1,578
Projected benefit obligations	1,311	1,866
Plan assets less than projected benefit obligations	(217)	(288)
Items not yet recognized in pension expense:		
Actuarial loss	347	488
Prior service credit	—	(25)
	<u>347</u>	<u>463</u>
Net amount recognized	<u>\$ 130</u>	<u>\$ 175</u>

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Pension assets	\$ 22	\$ 22
Current pension liability, included with Other accrued liabilities	(9)	(6)
Pension benefits	(230)	(304)
Accumulated other comprehensive loss	347	463
Net amount recognized	<u>\$ 130</u>	<u>\$ 175</u>

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The following changes in plan assets and benefit obligations were recognized in accumulated other comprehensive income at December 31, 2014 and 2013 as follows (amounts are pretax):

	<u>2014</u>	<u>2013</u>
Current year actuarial loss	\$ (23)	\$ 28
Amortization of actuarial loss	(20)	(28)
Amortization of prior service credit	2	1
Curtailement and plan amendment	22	(52)
Settlement	<u>(64)</u>	<u>(6)</u>
	(83)	(57)
Translation	<u>(32)</u>	<u>(5)</u>
	<u>\$ (115)</u>	<u>\$ (62)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$1,234 million and \$1,790 million at December 31, 2014 and 2013, respectively.

The components of the non-U.S. pension plans' net pension expense were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Service cost	\$ 23	\$ 33	\$ 26
Interest cost	69	72	77
Expected asset return	(86)	(91)	(87)
Amortization:			
Actuarial loss	18	28	22
Prior service credit	<u>—</u>	<u>(1)</u>	<u>—</u>
Net amortization	<u>18</u>	<u>27</u>	<u>22</u>
Net expense	<u>\$ 24</u>	<u>\$ 41</u>	<u>\$ 38</u>

On October 1, 2014, the Company settled the liability associated with its pension plan in the Netherlands. The non-U.S. pension expense excludes \$3 million, \$6 million and \$11 million of pension settlement costs that were recorded in restructuring expense in 2014, 2013 and 2012, respectively.

Amounts that are expected to be amortized from accumulated other comprehensive income into net pension expense during 2015:

Amortization:	
Actuarial loss	\$16
Prior service cost	<u>—</u>
Net amortization	<u>\$16</u>

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The following information is for plans with projected and accumulated benefit obligations in excess of the fair value of plan assets at year end:

	Projected Benefit Obligation Exceeds Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds Fair Value of Plan Assets	
	2014	2013	2014	2013
Projected benefit obligations	\$1,049	\$1,588	\$1,049	\$1,588
Accumulated benefit obligation	1,023	1,537	1,023	1,537
Fair value of plan assets	810	1,278	810	1,278

The weighted average assumptions used to determine benefit obligations were as follows:

	2014	2013
Discount rate	3.58%	4.14%
Rate of compensation increase	2.89%	3.31%

The weighted average assumptions used to determine net periodic pension costs were as follows:

	2014	2013	2012
Discount rate	4.14%	3.89%	4.75%
Rate of compensation increase	3.31%	3.08%	3.23%
Expected long-term rate of return on assets	7.23%	6.34%	6.24%

Future benefits are assumed to increase in a manner consistent with past experience of the plans, which, to the extent benefits are based on compensation, includes assumed salary increases as presented above.

For 2014, the Company's weighted average expected long-term rate of return on assets was 7.23% for the non-U.S. plans. In developing this assumption, the Company evaluated input from its third party pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered its historical 10-year average return (through December 31, 2013), which was in line with the expected long-term rate of return assumption for 2014.

It is the Company's policy to invest pension plan assets in a diversified portfolio consisting of an array of asset classes within established target asset allocation ranges. The investment risk of the assets is limited by appropriate diversification both within and between asset classes. The assets for the U.S. plans are maintained in a group trust. The U.S. plans hold no individual assets other than the investment in the group trust. The assets of the group trust and the Company's non-U.S. plans are primarily invested in a broad mix of domestic and international equities, domestic and international bonds, and real estate, subject to the target asset allocation ranges. The assets are managed with a view to ensuring that sufficient liquidity will be available to meet expected cash flow requirements.

The investment valuation policy of the Company is to value investments at fair value. All investments are valued at their respective net asset values. Equity securities for which market

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

quotations are readily available are valued at the last reported sales price on their principal exchange on valuation date or official close for certain markets. Fixed income investments are valued by an independent pricing service. Investments in registered investment companies or collective pooled funds are valued at their respective net asset values. Short-term investments are stated at amortized cost, which approximates fair value. The fair value of real estate is determined by periodic appraisals.

The following table sets forth by level, within the fair value hierarchy, the Company's pension plan assets at fair value as of December 31, 2013 and 2012:

	2014			2013			Target Allocation
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	
Cash and cash equivalents . . .	\$ 14	\$ —	\$—	\$ 39	\$ 6	\$—	
Equity securities	343	200		387	210		45 - 55%
Debt securities	364	119	2	752	116	2	40 - 50%
Real estate		30	3			6	0 - 10%
Other		19		13	47		0 - 10%
Total assets at fair value	<u>\$721</u>	<u>\$368</u>	<u>\$ 5</u>	<u>\$1,191</u>	<u>\$379</u>	<u>\$ 8</u>	

The following is a reconciliation of the Company's pension plan assets recorded at fair value using significant unobservable inputs (Level 3):

	2014	2013
Beginning balance	\$ 8	\$ 18
Net increase (decrease)	(3)	(10)
Ending balance	<u>\$ 5</u>	<u>\$ 8</u>

The net increase (decrease) in the fair value of the Company's Level 3 pension plan assets is primarily due to purchases and sales of unlisted real estate funds. The change in the fair value of Level 3 pension plan assets due to actual return on those assets was immaterial in 2014.

In order to maintain minimum funding requirements, the Company is required to make contributions to its non-U.S. defined benefit pension plans of approximately \$20 million in 2015.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	
2015	\$ 61
2016	63
2017	63
2018	65
2019	68
2020 - 2024	373

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

Postretirement Benefits Other Than Pensions

OI Inc. provides retiree health care and life insurance benefits covering certain U.S. salaried and hourly employees. Benefits provided by the Company for hourly retirees are determined by collective bargaining. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. Independent actuaries determine postretirement benefit costs for each subsidiary of OI Inc.; however, accumulated postretirement benefit obligation information pertaining to each subsidiary has not been separately determined. As such, the accumulated postretirement benefit obligation has been retained by another subsidiary of OI Inc.

The Company's net periodic postretirement benefit cost, as allocated by OI Inc., for domestic employees was \$1 million, \$3 million, and \$6 million at December 31, 2014, 2013, and 2012, respectively.

The Company also has postretirement benefit plans covering substantially all employees in Canada. The following tables relate to the Company's postretirement benefit plans in Canada.

The changes in the postretirement benefit obligations for the year were as follows:

	<u>2014</u>	<u>2013</u>
Obligations at beginning of year	\$90	\$102
Change in benefit obligations:		
Service cost	1	1
Interest cost	4	4
Actuarial (gain) loss, including the effect of changing discount rates	(2)	(7)
Benefit payments	(3)	(4)
Foreign currency translation	(7)	(6)
Other	(2)	—
Net change in benefit obligations	<u>(9)</u>	<u>(12)</u>
Obligations at end of year	<u>\$81</u>	<u>\$ 90</u>

The funded status of the postretirement benefit plans at year end was as follows:

	<u>2014</u>	<u>2013</u>
Postretirement benefit obligations	\$(81)	\$(90)
Items not yet recognized in net postretirement benefit cost:		
Actuarial loss	(3)	(2)
Net amount recognized	<u>\$(84)</u>	<u>\$(92)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Current nonpension postretirement benefit, included with Other accrued liabilities	\$ (3)	\$ (4)
Nonpension postretirement benefits	(78)	(86)
Accumulated other comprehensive loss	<u>(3)</u>	<u>(2)</u>
Net amount recognized	<u><u>\$(84)</u></u>	<u><u>\$(92)</u></u>

The following changes in benefit obligations were recognized in accumulated other comprehensive income at December 31, 2014 and 2013 as follows (amounts are pretax):

	<u>2014</u>	<u>2013</u>
Current year actuarial (gain) loss	\$(1)	\$(7)

The components of the net postretirement benefit cost for the year were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Service cost	\$1	\$1	\$1
Interest cost	<u>4</u>	<u>4</u>	<u>4</u>
Net postretirement benefit cost	<u><u>\$5</u></u>	<u><u>\$5</u></u>	<u><u>\$5</u></u>

The weighted average discount rates used to determine the accumulated postretirement benefit obligation and net postretirement benefit cost were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Accumulated post retirement benefit obligation	3.75%	4.47%	3.89%
Net postretirement benefit cost	4.47%	3.89%	4.13%

The weighted average assumed health care cost trend rates at December 31 were as follows:

	<u>2014</u>	<u>2013</u>
Health care cost trend rate assumed for next year	5.00%	5.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2014	2014

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

Assumed health care cost trend rates affect the amounts reported for the postretirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost	\$ 1	\$ (1)
Effect on accumulated postretirement benefit obligations	14	(11)

Amortization included in net postretirement benefit cost is based on the average remaining service of employees.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

<u>Year(s)</u>	
2015	\$ 3
2016	3
2017	3
2018	3
2019	3
2020 - 2024	18

Other U.S. hourly retirees receive health and life insurance benefits from a multi-employer trust established by collective bargaining. Payments to the trust as required by the bargaining agreements are based upon specified amounts per hour worked and were \$6 million in each of the years 2014, 2013 and 2012. Postretirement health and life benefits for retirees of foreign subsidiaries are generally provided through the national health care programs of the countries in which the subsidiaries are located.

11. Income Taxes

The provision (benefit) for income taxes was calculated based on the following components of earnings (loss) before income taxes:

<u>Continuing operations</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
U.S.	\$231	\$340	\$297
Non-U.S.	271	249	296
	<u>\$502</u>	<u>\$589</u>	<u>\$593</u>
 <u>Discontinued operations</u>	 <u>2014</u>	 <u>2013</u>	 <u>2012</u>
U.S.	\$—	\$—	\$—
Non-U.S.	(4)	(10)	(5)
	<u>\$(4)</u>	<u>\$(10)</u>	<u>\$(5)</u>

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. Income Taxes (Continued)

The provision (benefit) for income taxes consists of the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current:			
U.S.	\$ 8	\$ 7	\$ —
Non-U.S.	103	116	117
	<u>111</u>	<u>123</u>	<u>117</u>
Deferred:			
U.S.			10
Non-U.S.	(18)	(3)	(13)
	<u>(18)</u>	<u>(3)</u>	<u>(3)</u>
Total:			
U.S.	8	7	10
Non-U.S.	85	113	104
Total	<u>\$ 93</u>	<u>\$120</u>	<u>\$114</u>

A reconciliation of the provision for income taxes based on the statutory U.S. Federal tax rate of 35% to the provision for income taxes is as follows:

	<u>2014</u>	<u>2013</u>
Tax provision on pretax earnings (loss) from continuing operations at statutory U.S. Federal tax rate	\$177	\$206
Increase (decrease) in provision for income taxes due to:		
Differences in income taxes on foreign earnings, losses and remittances	(19)	(29)
Goodwill impairment		
U.S. tax consolidation benefit	(47)	(51)
Changes in valuation allowance	(12)	(1)
Tax audits and settlements	2	1
Other items	(8)	(6)
Provision for income taxes	<u>\$ 93</u>	<u>\$120</u>

Deferred income taxes reflect: (1) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes; and (2) carryovers and credits for income tax purposes.

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. Income Taxes (Continued)

Significant components of the Company's deferred tax assets and liabilities at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Accrued postretirement benefits	\$ 21	\$ 23
Foreign tax credit	376	356
Operating and capital loss carryovers	334	350
Other credit carryovers	12	29
Accrued liabilities	67	70
Pension liability	29	47
Other	<u>49</u>	<u>60</u>
Total deferred tax assets	888	935
Deferred tax liabilities:		
Property, plant and equipment	114	117
Exchangeable notes		10
Intangibles	34	27
Other	<u>41</u>	<u>65</u>
Total deferred tax liabilities	189	219
Valuation allowance	<u>(595)</u>	<u>(651)</u>
Net deferred taxes	<u>\$ 104</u>	<u>\$ 65</u>

Deferred taxes are included in the Consolidated Balance Sheets at December 31, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Prepaid expenses	\$ 34	\$ 62
Other assets	203	235
Deferred taxes	<u>(133)</u>	<u>(232)</u>
Net deferred taxes	<u>\$ 104</u>	<u>\$ 65</u>

The Company reviews the likelihood that it will realize the benefit of its deferred tax assets and therefore the need for valuation allowances on a quarterly basis, or whenever events indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset is considered, along with other positive and negative evidence.

In certain foreign jurisdictions, the Company's analysis indicates that it has cumulative losses in recent years. This is considered significant negative evidence which is objective and verifiable and, therefore, difficult to overcome. However, the cumulative loss position is not solely determinative and, accordingly, the Company considers all other available positive and negative evidence in its analysis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. Income Taxes (Continued)

Based on its analysis, the Company has recorded a valuation allowance for the portion of deferred tax assets where based on the weight of available evidence it is unlikely to realize those deferred tax assets.

At December 31, 2014, before valuation allowance, the Company had unused foreign tax credits of \$376 million expiring in 2017 through 2024, and research tax credit of \$12 million expiring from 2019 to 2034, which will be available to offset future income tax. Approximately \$174 million of the deferred tax assets related to operating and capital loss carryforwards can be carried over indefinitely, with the remaining \$160 million expiring between 2014 and 2035.

At December 31, 2014, the Company's equity in the undistributed earnings of foreign subsidiaries for which income taxes had not been provided approximated \$2.9 billion. The Company intends to reinvest these earnings indefinitely in the non-U.S. operations and has not distributed any of these earnings to the U.S. in 2014, 2013 or 2012. It is not practicable to estimate the U.S. and foreign tax which would be payable should these earnings be distributed. Deferred taxes are provided for earnings of non-U.S. jurisdictions when the Company plans to remit those earnings.

The Company is included in OI Inc.'s consolidated tax returns for U.S. federal and certain state income tax purposes. The consolidated group has net operating losses, capital losses, alternative minimum tax credits, foreign tax credits and research and development credits available to offset future U.S. Federal income tax. Income taxes are allocated to the Company on a basis consistent with separate returns.

The Company has recognized tax benefits as a result of incentives in certain non-U.S. jurisdictions which expire between 2015 and 2016.

The Company records a liability for unrecognized tax benefits related to uncertain tax positions. The Company accrues interest and penalties associated with unrecognized tax benefits as a component of its income tax expense. The following is a reconciliation of the Company's total gross unrecognized tax benefits for the years ended December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Balance at January 1	\$100	\$ 97	\$125
Additions and reductions for tax positions of prior years	(13)	(3)	8
Additions based on tax positions related to the current year . . .	10	9	7
Reductions due to the lapse of the applicable statute of limitations	(8)	(2)	(21)
Reductions due to settlements	(1)		(26)
Foreign currency translation	(11)	(1)	4
Balance at December 31	<u>\$ 77</u>	<u>\$100</u>	<u>\$ 97</u>
Unrecognized tax benefits, which if recognized, would impact the Company's effective income tax rate	<u>\$ 70</u>	<u>\$ 92</u>	<u>\$ 89</u>
Accrued interest and penalties at December 31	<u>\$ 29</u>	<u>\$ 35</u>	<u>\$ 33</u>
Interest and penalties included in tax expense for the years ended December 31	<u>\$ (2)</u>	<u>\$ 1</u>	<u>\$ (6)</u>

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11. Income Taxes (Continued)

Based upon the outcome of tax examinations, judicial proceedings, or expiration of statute of limitations, it is reasonably possible that the ultimate resolution of these unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities. The Company believes that it is reasonable possible that the estimated liability could decrease up to \$12 million within the next 12 months. This is primarily the result of audit settlements or statute expirations in several taxing jurisdictions.

The Company is currently under examination in various tax jurisdictions in which it operates, including Argentina, Brazil, Canada, Germany, Indonesia, Italy and Peru. The years under examination range from 2005 through 2012. The Company believes that there are no jurisdictions in which the outcome of unresolved issues or claims is likely to be material to the Company's results of operations, financial position or cash flows. The Company further believes that adequate provisions for all income tax uncertainties have been made. During 2014, the Company concluded income tax audits in several jurisdictions, including Australia, Ecuador, Italy, and Poland.

12. External Debt

The following table summarizes the external long-term debt of the Company at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Secured Credit Agreement:		
Revolving Credit Facility:		
Revolving Loans	\$ —	\$ —
Term Loans:		
Term Loan A		
Term Loan B	405	405
Term Loan C (81 million CAD at December 31, 2014)	70	76
Term Loan D (€85 million at December 31, 2014)	103	117
Senior Notes:		
3.00%, Exchangeable, due 2015	18	617
7.375%, due 2016	596	593
6.75%, due 2020 (€500 million)	608	690
4.875%, due 2021 (€330 million)	401	455
5.00%, due 2022	494	
5.375%, due 2025	296	
Capital Leases	51	25
Other	30	20
Total long-term debt	<u>3,072</u>	<u>2,998</u>
Less amounts due within one year	361	15
Long-term debt	<u>\$2,711</u>	<u>\$2,983</u>

On May 19, 2011, the Company entered into the Secured Credit Agreement (the "Agreement"). At December 31, 2014, the Agreement included a \$900 million revolving credit facility, a \$405 million term

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12. External Debt (Continued)

loan, an 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 December 31, 2014, the Company had unused credit of \$804 million available under the Agreement.

The Agreement contains various covenants that restrict, among other things and subject to certain exceptions, the ability of the Company to incur certain liens, make certain investments, become liable under contingent obligations in certain defined instances only, make restricted junior payments, make certain asset sales within guidelines and limits, make capital expenditures beyond a certain threshold, engage in material transactions with shareholders and affiliates, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain outstanding debt obligations.

The Agreement also contains one financial maintenance covenant, a Leverage Ratio, that requires the Company not to exceed a ratio calculated by dividing consolidated total debt, less cash and cash equivalents, by Consolidated Adjusted EBITDA, as defined in the Agreement. The Leverage Ratio could restrict the ability of the Company to undertake additional financing or acquisitions to the extent that such financing or acquisitions would cause the Leverage Ratio to exceed the specified maximum of 4.0x.

Failure to comply with these covenants and restrictions could result in an event of default under the Agreement. In such an event, the Company could not request borrowings under the revolving facility, and all amounts outstanding under the Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Agreement and the lenders cause all of the outstanding debt obligations under the Agreement to become due and payable, this would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. A default or event of default under the Agreement, indentures or agreements governing other indebtedness could also lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross-default provisions.

The Leverage Ratio also determines pricing under the Agreement. The interest rate on borrowings under the Agreement is, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Agreement. These rates include a margin linked to the Leverage Ratio. The margins range from 1.25% to 2.00% for Eurocurrency Rate loans and from 0.25% to 1.00% for Base Rate loans. In addition, a facility fee is payable on the revolving credit facility commitments ranging from 0.25% to 0.50% per annum linked to the Leverage Ratio. The weighted average interest rate on borrowings outstanding under the Agreement at December 31, 2014 was 2.09%. As of December 31, 2014, the Company was in compliance with all covenants and restrictions in the Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Agreement will not be adversely affected by the covenants and restrictions.

Borrowings under the Agreement are secured by substantially all of the assets, excluding real estate, of the Company's domestic subsidiaries and certain foreign subsidiaries. Borrowings are also secured by a pledge of intercompany debt and equity in most of the Company's domestic subsidiaries and stock of certain foreign subsidiaries. All borrowings under the agreement are guaranteed by substantially all domestic subsidiaries of the Company for the term of the Agreement.

During December 2014, the Company issued senior notes with a face value of \$500 million that bear interest at 5.00% and are due January 15, 2022. The Company also issued senior notes with a face

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12. External Debt (Continued)

value of \$300 million that bear interest at 5.375% and are due January 15, 2025. The New Senior Notes, which include both the senior notes due in 2022 and 2025, were issued via a private placement and are guaranteed by substantially all of the Company's domestic subsidiaries. The net proceeds from the New Senior Notes, after deducting debt issuance costs, totaled approximately \$790 million and were used to purchase in a tender offer \$611 million aggregate principal amount of the Company's 3.00% exchangeable senior notes due June 1, 2015. Approximately \$18 million of the exchangeable senior notes remain outstanding as of December 31, 2014. As part of the tender offer, the Company recorded \$20 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees in the fourth quarter of 2014.

During March 2013, the Company issued, in a private placement, 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 its 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 as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Balance (included in short-term loans)	\$ 122	\$ 276
Weighted average interest rate	1.41%	1.41%

Annual maturities for all of the Company's long-term debt through 2019 are as follows: 2015, \$361 million; 2016, \$882 million; 2017, \$2 million; 2018, \$3 million; and 2019, \$3 million.

Fair values at December 31, 2014, of the Company's significant fixed rate debt obligations are as follows:

	<u>Principal Amount</u>	<u>Indicated Market Price</u>	<u>Fair Value</u>
Senior Notes:			
7.375%, due 2016	\$600	\$106.70	\$640
6.75%, due 2020 (€500 million)	608	118.85	723
4.875%, due 2021 (€330 million)	401	110.00	441
5.00%, due 2022	500	101.81	509
5.375%, due 2025	300	101.25	304

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Tabular data dollars in millions

13. Contingencies

Certain litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief. The Company records a liability for such matters when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. Recorded amounts are reviewed and adjusted to reflect changes in the factors upon which the estimates are based including additional information, negotiations, settlements, and other events. The ultimate legal and financial liability of the Company in respect to this pending litigation cannot reasonably be estimated. However, the Company believes, based on its examination and review of such matters and experience to date, that such ultimate liability will not have a material adverse effect on its results of operations or financial condition.

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 \$85 million (including penalties and interest). The Company challenged this assessment, but the tax authority's position was upheld in court. The case was heard by a higher court in November 2014, and on February 5, 2015, the Company was informed that the higher court had issued a unfavorable verdict. The Company strongly disagrees with this ruling, however, there are no further appeals available to the Company. The unfavorable ruling has resulted in a charge of \$69 million. In order to contest the lower court rulings, legal rules required the Company to deposit the amount of the tax assessment, including penalties and interest. As of December 31, 2014, the Company has made installment payments totaling \$76 million and a net refund of approximately \$7 million is expected.

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

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

13. Contingencies (Continued)

and adjusted to reflect changes in the factors upon which the estimates are based, including additional information, negotiations, settlements and other events.

14. Accumulated Other Comprehensive Income

The components of comprehensive income are: (a) net earnings; (b) change in fair value of certain derivative instruments; (c) pension and other postretirement benefit adjustments; and (d) foreign currency translation adjustments. The net effect of exchange rate fluctuations generally reflects changes in the relative strength of the U.S. dollar against major foreign currencies between the beginning and end of the year.

The following table lists the beginning balance, annual activity and ending balance of each component of accumulated other comprehensive income (loss):

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments	Employee Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance on January 1, 2013	\$ 455	\$(1)	\$(402)	\$ 52
Change before reclassifications	(226)	1	35	(190)
Amounts reclassified from accumulated other comprehensive income		1(a)	33(b)	34
Tax effect	—	—	(33)	(33)
Other comprehensive income attributable to the Company	(226)	2	35	(189)
Balance on December 31, 2013	\$ 229	\$ 1	\$(367)	\$(137)
Change before reclassifications	(284)	3	136	(145)
Amounts reclassified from accumulated other comprehensive income		(2)(a)	18(b)	16
Translation effect			(32)	(32)
Tax effect	—	—	(10)	(10)
Other comprehensive income attributable to the Company	(284)	1	112	(171)
Balance on December 31, 2014	<u>\$ (55)</u>	<u>\$ 2</u>	<u>\$(255)</u>	<u>\$(308)</u>

(a) Amount is included in Cost of goods sold on the Consolidated Results of Operations (see Note 8 for additional information).

(b) Amount is included in the computation of net periodic pension cost and net postretirement benefit cost (see Note 10 for additional information).

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

15. Other Expense, net

Other expense, net for the year ended December 31, 2014, 2013, and 2012 included the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Non-income tax charge	\$ 69	\$ —	\$ —
Restructuring, asset impairment and related charges	68	97	159
Charge for Argentina impairment		22	
Gain on China land compensation			(61)
Foreign currency exchange (gain) loss	(2)	9	8
Other expense (income)	<u>3</u>	<u>(5)</u>	<u>(13)</u>
	<u>\$138</u>	<u>\$123</u>	<u>\$ 93</u>

In 2014, the Company recorded charges totaling \$76 million for restructuring, asset impairment and related charges. These charges include \$68 million recorded to other expense and \$8 million recorded to cost of goods sold. See Note 9 for additional information.

16. Operating Leases

Rent expense attributable to all warehouse, office buildings, and equipment operating leases was \$61 million in 2014, \$53 million in 2013 and \$69 million in 2012. Minimum future rentals under operating leases are as follows: 2015, \$52 million; 2016, \$44 million; 2017, \$39 million; 2018, \$33 million; 2019, \$23 million; and 2020 and thereafter, \$40 million.

17. Supplemental Cash Flow Information

Changes in the components of working capital related to operations (net of the effects related to acquisitions and divestitures) were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Decrease (increase) in current assets:			
Receivables	\$ 83	\$ 19	\$206
Inventories	(27)	(29)	(74)
Prepaid expenses	29	6	(1)
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities	48	126	(83)
Salaries and wages	12	(5)	19
U.S. and foreign income taxes	<u>13</u>	<u>7</u>	<u>(76)</u>
	<u>\$158</u>	<u>\$124</u>	<u>\$ (9)</u>

Interest paid in cash, including note repurchase premiums, aggregated \$177 million for 2014, \$185 million for 2013 and \$223 million for 2012.

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

17. Supplemental Cash Flow Information (Continued)

Income taxes paid in cash were as follows:

	2014	2013	2012
U.S.	\$ —	\$ —	\$ —
Non-U.S.	101	128	132
	\$101	\$128	\$132

18. Discontinued Operations

The loss from discontinued operations of \$4 million for the year ended December 31, 2014 represents ongoing costs related to the Venezuela expropriation.

The loss from discontinued operations of \$10 million for the year ended December 31, 2013 represents ongoing costs related to the Venezuela expropriation.

The loss from discontinued operations of \$2 million for the year ended December 31, 2012 included ongoing costs related to the Venezuelan expropriation.

19. Guarantees of Debt

OI Group and the Company guarantee OI Inc.'s senior debentures on a subordinated basis. The fair value of the OI Inc. debt being guaranteed was \$281 at December 31, 2014.

20. Related Party Transactions

Charges for administrative services are allocated to the Company by OI Inc. based on an annual utilization level. Such services include compensation and benefits administration, payroll processing, use of certain general accounting systems, auditing, income tax planning and compliance, and treasury services.

Allocated costs also include charges associated with OI Inc.'s equity compensation plans. A substantial number of the options, restricted share units and performance vested restricted share units granted under these plans have been granted to key employees of another subsidiary of OI Inc., some of whose compensation costs, including stock-based compensation, are included in an allocation of costs to all operating subsidiaries of OI Inc., including the Company.

Management believes that such transactions are on terms no less favorable to the Company than those that could be obtained from unaffiliated third parties.

Owens-Brockway Packaging, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

20. Related Party Transactions (Continued)

The following information summarizes the Company's significant related party transactions:

	Years ended December 31,		
	2014	2013	2012
Revenues:			
Sales to affiliated companies	\$—	\$—	\$—
Expenses:			
Administrative services	\$ 2	\$ 2	\$ 3
Corporate management fee	75	80	115
Total expenses	<u>\$77</u>	<u>\$82</u>	<u>\$118</u>

The above expenses are recorded in the results of operations as follows:

	Years ended December 31,		
	2014	2013	2012
Cost of goods sold	\$—	\$—	\$ 1
Selling, general and administrative expenses	77	82	117
Total expenses	<u>\$77</u>	<u>\$82</u>	<u>\$118</u>

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Share Owner of
Owens-Brockway Glass Container Inc.

We have audited the accompanying consolidated balance sheets of Owens-Brockway Glass Container Inc. (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of results of operations, comprehensive income, share owners' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Owens-Brockway Glass Container Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP
Toledo, Ohio
February 10, 2015

Owens-Brockway Glass Container Inc.
CONSOLIDATED RESULTS OF OPERATIONS
Dollars in millions

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales	\$ 6,784	\$ 6,967	\$ 7,000
Cost of goods sold	<u>(5,523)</u>	<u>(5,621)</u>	<u>(5,615)</u>
Gross profit	1,261	1,346	1,385
Selling and administrative expense	(412)	(429)	(482)
Research, development and engineering expense	(63)	(62)	(62)
Equity earnings	64	67	64
Interest expense, net	(210)	(210)	(219)
Other expense, net	<u>(138)</u>	<u>(123)</u>	<u>(93)</u>
Earnings from continuing operations before income taxes	502	589	593
Provision for income taxes	<u>(93)</u>	<u>(120)</u>	<u>(114)</u>
Earnings from continuing operations	409	469	479
Loss from discontinued operations	<u>(4)</u>	<u>(10)</u>	<u>(5)</u>
Net earnings	405	459	474
Net earnings attributable to noncontrolling interests	<u>(28)</u>	<u>(13)</u>	<u>(34)</u>
Net earnings attributable to the Company	<u>\$ 377</u>	<u>\$ 446</u>	<u>\$ 440</u>
Amounts attributable to the Company:			
Earnings from continuing operations	\$ 381	\$ 456	\$ 445
Loss from discontinued operations	<u>(4)</u>	<u>(10)</u>	<u>(5)</u>
Net earnings	<u>\$ 377</u>	<u>\$ 446</u>	<u>\$ 440</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Brockway Glass Container, Inc.
CONSOLIDATED COMPREHENSIVE INCOME
Dollars in millions

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net earnings	\$ 405	\$ 459	\$ 474
Other comprehensive income (loss):			
Foreign currency translation adjustments	(305)	(232)	(26)
Pension and other postretirement benefit adjustments, net of tax	112	35	(184)
Change in fair value of derivative instruments	1	2	5
Other comprehensive income (loss)	<u>(192)</u>	<u>(195)</u>	<u>(205)</u>
Total comprehensive income	213	264	269
Comprehensive income attributable to noncontrolling interests	<u>(7)</u>	<u>(7)</u>	<u>(42)</u>
Comprehensive income attributable to the Company	<u>\$ 206</u>	<u>\$ 257</u>	<u>\$ 227</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Brockway Glass Container, Inc.
CONSOLIDATED BALANCE SHEETS
Dollars in millions

<u>December 31,</u>	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash, including time deposits of \$103 (\$61 in 2013)	\$ 483	\$ 356
Receivables	737	942
Inventories	1,035	1,117
Prepaid expenses	62	100
Total current assets	<u>2,317</u>	<u>2,515</u>
Other assets:		
Equity investments	427	315
Pension assets	22	22
Other assets	621	702
Goodwill	<u>1,893</u>	<u>2,059</u>
Total other assets	2,963	3,098
Property, plant and equipment:		
Land, at cost	221	249
Buildings and equipment, at cost:		
Buildings and building equipment	1,055	1,153
Factory machinery and equipment	4,296	4,646
Transportation, office and miscellaneous equipment	85	100
Construction in progress	<u>160</u>	<u>212</u>
Less accumulated depreciation	<u>3,405</u>	<u>3,763</u>
Net property, plant and equipment	<u>2,412</u>	<u>2,597</u>
Total assets	<u><u>\$7,692</u></u>	<u><u>\$8,210</u></u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Brockway Glass Container Inc.
CONSOLIDATED BALANCE SHEETS (Continued)
Dollars in millions

<u>December 31,</u>	<u>2014</u>	<u>2013</u>
Liabilities and Share Owners' Equity		
Current liabilities:		
Accounts payable including amount to related parties of \$7 (\$1 in 2013)	\$1,128	\$1,132
Salaries and wages	135	155
U.S. and foreign income taxes	43	40
Other accrued liabilities	322	381
Short-term loans	127	306
Long-term debt due within one year	361	15
Total current liabilities	<u>2,116</u>	<u>2,029</u>
External long-term debt	2,711	2,983
Deferred taxes	133	232
Pension benefits	230	304
Nonpension postretirement benefits	78	86
Other liabilities	207	261
Share owners' equity:		
Investment by and advances from Parent	2,408	2,305
Accumulated other comprehensive income (loss)	(308)	(137)
Total share owner's equity of the Company	<u>2,100</u>	<u>2,168</u>
Noncontrolling interests	117	147
Total share owners' equity	<u>2,217</u>	<u>2,315</u>
Total liabilities and share owners' equity	<u>\$7,692</u>	<u>\$8,210</u>

See accompanying Notes to the Consolidated Financial Statements.

Owens-Brockway Glass Container Inc.
CONSOLIDATED SHARE OWNERS' EQUITY

	Share Owner's Equity of the Company			Total Share Owners' Equity
	Investment by and Advances from Parent	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	
Dollars in millions				
Balance on January 1, 2012	1,957	265	153	2,375
Net intercompany transactions	(255)			(255)
Net earnings	440		34	474
Other comprehensive income (loss)		(213)	8	(205)
Contribution from noncontrolling interests			3	3
Distributions to noncontrolling interests			(24)	(24)
Balance on December 31, 2012	2,142	52	174	2,368
Net intercompany transactions	(283)			(283)
Net earnings	446		13	459
Other comprehensive loss		(189)	(6)	(195)
Contribution from noncontrolling interests			5	5
Distributions to noncontrolling interests			(22)	(22)
Deconsolidation of subsidiary			(17)	(17)
Balance on December 31, 2013	2,305	(137)	147	2,315
Net intercompany transactions	(274)			(274)
Net earnings	377		28	405
Other comprehensive loss		(171)	(21)	(192)
Distributions to noncontrolling interests			(37)	(37)
Balance on December 31, 2014	<u>\$2,408</u>	<u>\$(308)</u>	<u>\$117</u>	<u>\$2,217</u>

See accompanying Notes to the Consolidated Financial Statements

Owens-Brockway Glass Container, Inc.
CONSOLIDATED CASH FLOWS
Dollars in millions

<u>Years ended December 31,</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating activities:			
Net earnings	\$ 405	\$ 459	\$ 474
Loss from discontinued operations	4	10	5
Non-cash charges (credits):			
Depreciation	331	345	374
Amortization of intangibles and other deferred items	75	40	27
Amortization of finance fees and debt discount	20	32	33
Deferred tax benefit	(18)	(3)	(3)
Restructuring, asset impairment and related charges	76	119	159
Non-income tax charge	69		
Gain on China land compensation			(61)
Other	(91)	36	(58)
Cash paid for restructuring activities	(58)	(78)	(65)
Change in non-current assets and liabilities	(25)	(134)	(54)
Change in components of working capital	158	124	(9)
	<u>946</u>	<u>950</u>	<u>822</u>
Cash provided by continuing operating activities	946	950	822
Cash utilized in discontinued operating activities	(4)	(10)	(5)
	<u>942</u>	<u>940</u>	<u>817</u>
Investing activities:			
Additions to property, plant and equipment	(369)	(360)	(290)
Acquisitions, net of cash acquired	(113)	(4)	(5)
Net cash proceeds related to sale of assets and other	16	10	95
Net activity for non-controlling partner loans	9	(16)	(21)
Deconsolidation of subsidiary		(32)	
	<u>(457)</u>	<u>(402)</u>	<u>(221)</u>
Cash utilized in investing activities	(457)	(402)	(221)
Financing activities:			
Additions to long-term debt	1,226	768	119
Repayments of long-term debt	(1,100)	(1,040)	(401)
Increase (decrease) in short-term loans	(139)	8	(38)
Net receipts from (distribution to) parent	(274)	(283)	(255)
Net foreign exchange derivative activity	(2)	(24)	27
Payment of finance fees	(11)	(7)	(1)
Contribution from noncontrolling interests		5	3
Distributions to noncontrolling interests	(37)	(22)	(24)
	<u>(337)</u>	<u>(595)</u>	<u>(570)</u>
Cash utilized in financing activities	(337)	(595)	(570)
Effect of exchange rate fluctuations on cash	(21)	(7)	16
	<u>127</u>	<u>(64)</u>	<u>42</u>
Increase (decrease) in cash	127	(64)	42
Cash at beginning of year	356	420	378
	<u>\$ 483</u>	<u>\$ 356</u>	<u>\$ 420</u>
Cash at end of year	\$ 483	\$ 356	\$ 420

See accompanying Notes to Consolidated Financial Statements.

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Tabular data dollars in millions

1. Significant Accounting Policies

Basis of Consolidated Statements The consolidated financial statements of Owens-Brockway Glass Container Inc. (the “Company”) include the accounts of its subsidiaries. Newly acquired subsidiaries have been included in the consolidated financial statements from dates of acquisition.

The Company uses the equity method of accounting for investments in which it has a significant ownership interest, generally 20% to 50%. Other investments are accounted for at cost. The Company monitors other than temporary declines in fair value and records reductions in carrying values when appropriate.

Relationship with Owens-Brockway Packaging, Inc., Owens-Illinois Group, Inc. and Owens-Illinois, Inc. The Company is a 100%-owned subsidiary of Owens-Brockway Packaging, Inc. (“OB Packaging”), and an indirect subsidiary of Owens-Illinois Group, Inc. (“OI Group”) and Owens-Illinois, Inc. (“OI Inc.”). Although OI Inc. does not conduct any operations, it has substantial obligations related to outstanding indebtedness and asbestos-related payments. OI Inc. relies primarily on distributions from its direct and indirect subsidiaries to meet these obligations.

For federal and certain state income tax purposes, the taxable income of the Company is included in the consolidated tax returns of OI Inc. and income taxes are allocated to the Company on a basis consistent with separate returns.

Nature of Operations The Company is a leading manufacturer of glass container products. The Company’s principal product lines are glass containers for the food and beverage industries. The Company has glass container operations located in 21 countries. The principal markets and operations for the Company’s products are in Europe, North America, South America and Asia Pacific.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates, at which time the Company would revise its estimates accordingly.

Foreign Currency Translation The assets and liabilities of non-U.S. subsidiaries are translated into U.S. dollars at year-end exchange rates. Any related translation adjustments are recorded in accumulated other comprehensive income in share owners’ equity.

Revenue Recognition The Company recognizes sales, net of estimated discounts and allowances, when the title to the products and risk of loss are transferred to customers. Provisions for rebates to customers are provided in the same period that the related sales are recorded.

Shipping and Handling Costs Shipping and handling costs are included with cost of goods sold in the Consolidated Results of Operations.

Cash The Company defines “cash” as cash and time deposits with maturities of three months or less when purchased. Outstanding checks in excess of funds on deposit are included in accounts payable.

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

1. Significant Accounting Policies (Continued)

Accounts Receivable Receivables are stated at amounts estimated by management to be the net realizable value. The Company charges off accounts receivable when it becomes apparent based upon age or customer circumstances that amounts will not be collected.

Allowance for Doubtful Accounts The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk.

Inventory Valuation Inventories are valued at the lower of average costs or market.

Goodwill Goodwill represents the excess of cost over fair value of net assets of businesses acquired. Goodwill is evaluated annually, as of October 1, for impairment or more frequently if an impairment indicator exists.

Intangible Assets and Other Long-Lived Assets Intangible assets are amortized over the expected useful life of the asset. Amortization expense directly attributed to the manufacturing of the Company's products is included in cost of goods sold. Amortization expense related to non-manufacturing activities is included in selling and administrative and other. The Company evaluates the recoverability of intangible assets and other long-lived assets based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

Property, Plant and Equipment Property, plant and equipment ("PP&E") is carried at cost and includes expenditures for new facilities and equipment and those costs which substantially increase the useful lives or capacity of existing PP&E. In general, depreciation is computed using the straight-line method and recorded over the estimated useful life of the asset. Factory machinery and equipment is depreciated over periods ranging from 5 to 25 years with the majority of such assets (principally glass-melting furnaces and forming machines) depreciated over 7 to 15 years. Buildings and building equipment are depreciated over periods ranging from 10 to 50 years. Depreciation expense directly attributed to the manufacturing of the Company's products is included in cost of goods sold. Depreciation expense related to non-manufacturing activities is included in selling and administrative. Depreciation expense includes the amortization of assets recorded under capital leases. Maintenance and repairs are expensed as incurred. Costs assigned to PP&E of acquired businesses are based on estimated fair values at the date of acquisition. The Company evaluates the recoverability of PP&E based on undiscounted projected cash flows, excluding interest and taxes, when factors indicate that impairment may exist. If impairment exists, the asset is written down to fair value.

Derivative Instruments The Company uses forward exchange contracts, options and commodity forward contracts to manage risks generally associated with foreign exchange rate and commodity market volatility. Derivative financial instruments are included on the balance sheet at fair value. When appropriate, derivative instruments are designated as and are effective as hedges, in accordance with accounting principles generally accepted in the United States. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. The Company does not enter into derivative financial instruments for

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

1. Significant Accounting Policies (Continued)

trading purposes and is not a party to leveraged derivatives. Cash flows from short-term forward exchange contracts not designated as hedges are classified as a financing activity. Cash flows of commodity forward contracts are classified as operating activities.

Fair Value Measurements Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Generally accepted accounting principles defines a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs for which there is little or no market data, which requires the Company to develop assumptions.

The carrying amounts reported for cash and short-term loans approximate fair value. In addition, carrying amounts approximate fair value for certain long-term debt obligations subject to frequently redetermined interest rates. Fair values for the Company's significant fixed rate debt obligations are generally based on published market quotations.

The Company's derivative assets and liabilities 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.

Reclassifications Certain reclassifications of prior years' data have been made to conform to the current year presentation.

New Accounting Standards 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 will become 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.

Participation in OI Inc. Stock Option Plans and Other Stock Based Compensation The Company participates in the equity compensation plans of OI Inc. under which employees of the Company may be granted options to purchase common shares of OI Inc., restricted common shares of OI Inc., or restricted share units of OI Inc.

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

1. Significant Accounting Policies (Continued)

Stock Options

Options granted prior to March 22, 2005, all of which are exercisable, expire following termination of employment or the day after the tenth anniversary date of the option grant.

For options granted after March 21, 2005, no options may be exercised in whole or in part during the first year after the date granted. In general, subject to change in control, these options become exercisable 25% per year beginning on the first anniversary. In general, options expire following termination of employment or the seventh anniversary of the option grant. The fair value of options granted after March 21, 2005, is amortized over the vesting periods which range from one to four years.

Restricted Shares and Restricted Share Units

Shares granted to employees prior to March 22, 2005, generally vest after three years or upon retirement, whichever is later. Shares granted after March 21, 2005 and prior to 2011, vest 25% per year beginning on the first anniversary and unvested shares are forfeited upon termination of employment. Restricted share units granted to employees after 2010 vest 25% per year beginning on the first anniversary. Holders of vested restricted share units receive one share of OI Inc.'s common stock for each unit. Granted but unvested restricted share units are forfeited upon termination, unless certain retirement criteria are met.

The fair value of the restricted shares and restricted share units is equal to the market price of OI Inc.'s common stock on the date of the grant. The fair value of restricted shares granted before March 22, 2005, is amortized ratably over the vesting period. The fair value of restricted shares and restricted share units granted after March 21, 2005, is amortized over the vesting periods which range from one to four years.

Performance Vested Restricted Share Units

Performance vested restricted share units vest on January 1 of the third year following the year in which they are granted. Holders of vested units may receive up to 2 shares of OI Inc.'s common stock for each unit, depending upon the attainment of consolidated performance goals established by the Compensation Committee of OI Inc.'s Board of Directors. If minimum goals are not met, no shares will be issued. Granted but unvested restricted share units are forfeited upon termination of employment, unless certain retirement criteria are met.

The fair value of each performance vested restricted share unit is equal to the product of the fair value of OI Inc.'s common stock on the date of grant and the estimated number of shares into which the performance vested restricted share unit will be converted. The fair value of performance vested restricted share units is amortized ratably over the vesting period. Should the estimated number of shares into which the performance vested restricted share unit will be converted change, an adjustment will be recorded to recognize the accumulated difference in amortization between the revised and previous estimates.

As discussed in Note 20, costs incurred under these plans by OI Inc. related to stock-based compensation awards granted directly to the Company's employees are included in the allocable costs charged to the Company and other operating subsidiaries of OI Inc. on an intercompany basis.

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

2. 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 Other. These include licensing, equipment manufacturing, global engineering, and non-glass equity investments.

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. The Company's management uses segment operating profit, in combination with selected cash flow information, to evaluate performance and to allocate resources. Segment operating profit for 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 regarding the Company's reportable segments is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales:			
Europe	\$2,794	\$2,787	\$2,717
North America	2,003	2,002	1,966
South America	1,159	1,186	1,252
Asia Pacific	<u>793</u>	<u>966</u>	<u>1,028</u>
Reportable segment totals	6,749	6,941	6,963
Other	<u>35</u>	<u>26</u>	<u>37</u>
Net sales	<u>\$6,784</u>	<u>\$6,967</u>	<u>\$7,000</u>
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Segment operating profit:			
Europe	\$ 353	\$ 305	\$ 307
North America	240	307	288
South America	227	204	227
Asia Pacific	<u>88</u>	<u>131</u>	<u>113</u>
Reportable segment totals	908	947	935
Items excluded from segment operating profit:			
Other	(1)	(29)	(25)
Restructuring, asset impairment and other charges	(91)	(119)	(159)
Non-income tax charge	(69)		
Pension Settlement charges	(35)		
Gain on China land compensation			61
Interest expense, net	<u>(210)</u>	<u>(210)</u>	<u>(219)</u>
Earnings (loss) from continuing operations before income taxes	<u>\$ 502</u>	<u>\$ 589</u>	<u>\$ 593</u>

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

2. Segment Information (Continued)

	<u>Europe</u>	<u>North America</u>	<u>South America</u>	<u>Asia Pacific</u>	<u>Reportable Segment Totals</u>	<u>Other</u>	<u>Consolidated Totals</u>
Total assets:							
2014	\$3,224	\$1,963	\$1,300	\$1,018	\$7,505	\$187	\$7,692
2013	3,509	1,986	1,467	1,150	8,112	98	8,210
2012	3,362	1,986	1,655	1,349	8,352	106	8,458
Equity investments:							
2014	\$ 81	\$ 24	\$ —	\$ 153	\$ 258	\$169	\$ 427
2013	84	25		155	264	51	315
2012	63	25		165	253	41	294
Equity earnings:							
2014	\$ 19	\$ 17	\$ —	\$ 4	\$ 40	\$ 24	\$ 64
2013	17	16		10	43	24	67
2012	15	16		5	36	28	64
Capital expenditures:							
2014	\$ 188	\$ 89	\$ 55	\$ 34	\$ 366	\$ 3	\$ 369
2013	130	100	80	36	346	14	360
2012	87	68	75	49	279	11	290
Depreciation and amortization expense:							
2014	\$ 140	\$ 131	\$ 79	\$ 53	\$ 403	\$ 3	\$ 406
2013	139	110	72	62	383	2	385
2012	150	107	70	70	397	4	401

The Company's net property, plant and equipment by geographic segment are as follows:

	<u>U.S.</u>	<u>Non-U.S.</u>	<u>Total</u>
2014	\$678	\$1,734	\$2,412
2013	651	1,946	2,597
2012	624	2,106	2,730

The Company's net sales by geographic segment are as follows:

	<u>U.S.</u>	<u>Non-U.S.</u>	<u>Total</u>
2014	\$1,852	\$4,932	\$6,784
2013	1,809	5,158	6,967
2012	1,780	5,220	7,000

Operations outside the U.S. that accounted for more than 10% of consolidated net sales from continuing operations were in France (2014—11%, 2013—11%, 2012—11%).

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

3. Receivables

Receivables consist of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Trade accounts receivable	\$584	\$757
Less: allowances for doubtful accounts and discounts	33	38
Net trade receivables	551	719
Other receivables	186	223
	<u>\$737</u>	<u>\$942</u>

The Company uses various factoring programs to sell certain receivables to financial institutions as part of managing its cash flows. At December 31, 2014 and 2013, the amount of receivables sold by the Company was \$276 million and \$192 million, respectively. Any continuing involvement with the sold receivables is immaterial.

4. Inventories

Major classes of inventory are as follows:

	<u>2014</u>	<u>2013</u>
Finished goods	\$ 884	\$ 958
Raw materials	110	113
Operating supplies	41	46
	<u>\$1,035</u>	<u>\$1,117</u>

5. Equity Investments

At December 31, 2014 the Company's ownership percentage in equity associates include:

<u>Affiliates</u>	<u>O-I Ownership Percentage</u>	<u>Business Type</u>
BJC O-I Glass Pte. Ltd.	50%	Glass container manufacturer
CO Vidrieria SARL	50%	Glass container manufacturer
Rocky Mountain Bottle Company	50%	Glass container manufacturer
Tata Chemical (Soda Ash) Partners	25%	Soda ash supplier
Vetriere Meridionali SpA ("VeMe")	50%	Glass container manufacturer
Vetri Speciali SpA	50%	Speciality glass manufacturer

During the fourth quarter of 2014, the Company entered into a joint venture agreement with Constellation Brands, Inc. to operate a glass container plant in Nava, Mexico. The Company has determined the accounting for the investment and returns as an equity joint venture.

During the fourth quarter of 2013, changes were made to the VeMe joint venture agreement that resulted in the Company relinquishing control of the joint venture and, therefore, deconsolidating the entity. No gain or loss was recognized related to the deconsolidation as the fair value of the entity was

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

5. Equity Investments (Continued)

equal to the carrying amount of the entity's assets and liabilities. The fair value, which the Company classified as Level 3 in the fair value hierarchy, was computed using a discounted cash flow analysis based on projected future cash flows of the joint venture.

Summarized information pertaining to the Company's equity associates follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Equity in earnings:			
Non-U.S.	\$23	\$27	\$20
U.S.	<u>41</u>	<u>40</u>	<u>44</u>
Total	<u>\$64</u>	<u>\$67</u>	<u>\$64</u>
Dividends received	<u>\$54</u>	<u>\$67</u>	<u>\$50</u>

Summarized combined financial information for equity associates is as follows (unaudited):

	<u>2014</u>	<u>2013</u>
At end of year:		
Current assets	\$ 479	\$419
Non-current assets	<u>718</u>	<u>528</u>
Total assets	1,197	947
Current liabilities	217	224
Other liabilities and deferred items	<u>191</u>	<u>193</u>
Total liabilities and deferred items	<u>408</u>	<u>417</u>
Net assets	<u>\$ 789</u>	<u>\$530</u>
For the year:		
Net sales	<u>\$752</u>	<u>\$699</u>
Gross profit	<u>\$198</u>	<u>\$185</u>
Net earnings	<u>\$150</u>	<u>\$143</u>

The Company purchased approximately \$188 million and \$133 million from equity affiliates in 2014 and 2013, respectively, and owed approximately \$79 million and \$42 million to equity affiliates as of December 31, 2014 and 2013, respectively.

There is a difference of approximately \$9 million as of December 31, 2014 between the amount at which certain investments are carried and the amount of underlying equity in net assets. The portion of the difference related to inventory or amortizable assets is amortized as a reduction of the equity earnings. The remaining difference is considered goodwill.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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6. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2014, 2013 and 2012 are as follows:

	<u>Europe</u>	<u>North America</u>	<u>South America</u>	<u>Other</u>	<u>Total</u>
Balance as of January 1, 2012	983	740	354	5	2,082
Translation effects	23	3	(29)	—	(3)
Balance as of December 31, 2012	1,006	743	325	5	2,079
Translation effects	38	(9)	(49)	—	(20)
Balance as of December 31, 2013	1,044	734	276	5	2,059
Translation effects	(118)	(11)	(37)	—	(166)
Balance as of December 31, 2014	<u>\$ 926</u>	<u>\$723</u>	<u>\$239</u>	<u>\$5</u>	<u>\$1,893</u>

Goodwill for the Asia Pacific segment is \$0 and net of accumulated impairment losses of \$1,135 million as of December 31, 2014, 2013 and 2012.

Goodwill is tested for impairment annually as of October 1 (or more frequently if impairment indicators arise) using a two-step process. Step 1 compares the business enterprise value (“BEV”) of each reporting unit with its carrying value. The BEV is computed based on estimated future cash flows, discounted at the weighted average cost of capital of a hypothetical third-party buyer. If the BEV is less than the carrying value for any reporting unit, then Step 2 must be performed. Step 2 compares the implied fair value of goodwill with the carrying amount of goodwill. Any excess of the carrying value of the goodwill over the implied fair value will be recorded as an impairment loss. The calculations of the BEV in Step 1 and the implied fair value of goodwill in Step 2 are based on significant unobservable inputs, such as price trends, customer demand, material costs, discount rates and asset replacement costs, and are classified as Level 3 in the fair value hierarchy.

During the fourth quarter of 2014, the Company completed its annual impairment testing and determined that no impairment existed.

7. Other Assets

Other assets consist of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Deferred tax assets	\$203	\$235
Deferred returnable packaging costs	126	124
Repair part inventories	107	116
Non-income tax receivable	58	70
Capitalized software	37	39
Deferred finance fees	20	32
Intangibles	18	23
Other	52	63
	<u>\$621</u>	<u>\$702</u>

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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8. 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 value 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 Forward Contracts Designated as Cash Flow Hedges

In North America, the Company enters into commodity forward contracts related to forecasted natural gas requirements, the objectives of which are to limit the effects of fluctuations in the future market price paid for natural gas and the related volatility in cash flows. The Company continually evaluates the natural gas market and related price risk and periodically enters into commodity forward contracts in order to hedge a portion of its usage requirements. The majority of the 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. At December 31, 2014 and 2013, the Company had entered into commodity forward contracts covering approximately 450,000 MM BTUs and 5,400,000 MM BTUs, respectively, primarily related to customer requests to lock the price of natural gas.

The Company accounts for the above forward contracts as cash flow hedges at December 31, 2014 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 loss of less than \$1 million at December 31, 2014 and an unrecognized gain of \$1 million at December 31, 2013 related to the commodity forward contracts were included in Accumulated OCI, and will be reclassified into earnings over the next twelve to twenty-four 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 year ended December 31, 2014 and 2013 was not material.

The effect of the commodity forward contracts on the results of operations for the years ended December 31, 2014, 2013 and 2012 is as follows:

<u>Amount of Gain (Loss) recognized in OCI on Commodity Forward Contracts (Effective Portion)</u>			<u>Amount of Gain (Loss) reclassified from Accumulated OCI into Income (reported in cost of goods sold) (Effective Portion)</u>		
<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
\$3	\$1	\$(3)	\$2	\$(1)	\$(8)

Foreign Exchange Derivative Contracts not Designated as Hedging Instruments

The Company 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

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

8. Derivative Instruments (Continued)

commodities that are denominated in currencies other than the subsidiaries' functional currency. The Company may also use forward exchange agreements to offset the foreign currency risk for receivables and payables, including intercompany receivables, payables and loans, 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 December 31, 2014 and 2013, the Company had outstanding forward exchange and option agreements denominated in various currencies covering the equivalent of approximately \$524 million and \$550 million, respectively, related primarily to intercompany transactions and loans.

The effect of the foreign exchange derivative contracts on the results of operations for the years ended December 31, 2014, 2013 and 2012 is as follows:

<u>Location of Gain (Loss) Recognized in Income on Foreign Exchange Contracts</u>	<u>Amount of Gain (Loss) Recognized in Income on Foreign Exchange Contracts</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Other expense	\$(8)	\$(28)	\$6

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) deposits, receivables, and other assets if the instrument has a positive fair value and maturity after one year, and (c) other accrued liabilities or other liabilities (current) if the instrument has a negative fair value and maturity within one year. The following table shows the amount and classification (as noted above) of the Company's derivatives as of December 31, 2014 and 2013:

	<u>Balance Sheet Location</u>	<u>Fair Value</u>	
		<u>2014</u>	<u>2013</u>
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Commodity futures contracts	a	\$—	\$1
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	a	<u>10</u>	<u>3</u>
Total asset derivatives		<u>\$10</u>	<u>\$4</u>
Liability Derivatives:			
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	c	<u>4</u>	<u>7</u>
Total liability derivatives		<u>\$ 4</u>	<u>\$7</u>

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

9. Restructuring Accruals, Asset Impairments and Other Costs Related to Closed Facilities

The Company continually reviews its manufacturing footprint and operating cost structure and may decide to close operations or reduce headcount to gain efficiencies, integrate acquired operations and reduce future expenses. The Company incurs costs associated with these actions including employee severance and benefits, other exit costs such as those related to contract terminations, and asset impairment charges. The Company also may incur other costs related to closed facilities including environmental remediation, clean up, dismantling and preparation for sale or other disposition.

The Company accounts for restructuring and other costs under applicable provisions of generally accepted accounting principles. Charges for employee severance and related benefits are generally accrued based on contractual arrangements with employees or their representatives. Other exit costs are accrued based on the estimated cost to settle related contractual arrangements. Estimated environmental remediation costs are accrued when specific claims have been received or are probable of being received.

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 as Level 3 in the fair value hierarchy as set forth in the general accounting principles for fair value measurements.

When a decision is made to take these actions, the Company manages and accounts for them programmatically apart from the on-going operations of the business. Information related to major programs (as in the case of the European Asset Optimization and Asia Pacific Restructuring programs below) are presented separately. Minor initiatives are presented on a combined basis as Other Restructuring Actions. When charges related to major programs are completed, remaining accrual balances are classified with Other Restructuring Actions.

European Asset Optimization

Since 2011, the Company has implemented the European Asset Optimization program to increase the efficiency and capability of its European operations and to better align its European manufacturing footprint with market and customer needs. This program involves making additional investments in certain facilities and addressing assets with higher cost structures. As part of this program, the Company recorded charges of \$1 million in 2014, \$16 million in 2013 and \$86 million in 2012 for employee costs, write-down of assets, and environmental remediation related to decisions to close furnaces and manufacturing facilities in Europe. The Company expects to execute further actions under this program in phases over the next several years.

Asia Pacific Restructuring

Since 2011, the Company has implemented a restructuring plan in its Asia Pacific segment, primarily related to aligning its supply base with lower demand in the region. As part of this plan, the Company recorded charges of \$73 million, \$49 million and \$47 million for the years ended 2014, 2013 and 2012, respectively, for employee costs, write-down of assets, and pension charges related to furnace closures and additional restructuring activities.

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

**9. Restructuring Accruals, Asset Impairments and Other Costs Related to Closed Facilities
(Continued)**

Other Restructuring Actions

The Company took certain other restructuring actions and recorded charges in 2014 of \$2 million for employee costs related to global headcount reduction initiatives. In 2013, there were charges of \$16 million for employee costs related to the closure of flat glass operations in South America, \$13 million for employee costs related to global headcount reduction initiatives, and \$3 million for miscellaneous other costs. In 2012, the Company recorded charges of \$13 million for employee costs and asset impairments related to a decision to close a machine manufacturing facility in the U.S., \$7 million for employee costs and asset impairments related to a decision to close a mold shop in South America and \$15 million for miscellaneous other costs.

The following table presents information related to restructuring, asset impairment and other costs related to closed facilities:

	<u>European Asset Optimization</u>	<u>Asia Pacific Restructuring</u>	<u>Other Restructuring Actions</u>	<u>Total Restructuring</u>
Balance at January 1, 2013	53	6	62	121
2013 charges	16	49	32	97
Write-down of assets to net realizable value	(3)	(11)	(2)	(16)
Net cash paid, principally severance and related benefits	(37)	(16)	(25)	(78)
Pension charges transferred to other accounts . . .		(6)		(6)
Other, including foreign exchange translation . . .	<u>1</u>	<u>(2)</u>	<u>(5)</u>	<u>(6)</u>
Balance at December 31, 2013	30	20	62	112
2014 charges	1	73	2	76
Write-down of assets to net realizable value		(46)		(46)
Net cash paid, principally severance and related benefits	(12)	(20)	(26)	(58)
Pension charges transferred to other accounts . . .		(7)		(7)
Other, including foreign exchange translation . . .	<u>(7)</u>	<u>(8)</u>	<u>(4)</u>	<u>(19)</u>
Balance at December 31, 2014	<u>\$ 12</u>	<u>\$ 12</u>	<u>\$ 34</u>	<u>\$ 58</u>

The restructuring accrual balance represents the Company's estimates of the remaining future cash amounts to be paid related to the actions noted above. As of December 31, 2014, the Company's estimates include approximately \$28 million for severance and related benefits costs, \$26 million for environmental remediation costs, and \$4 million for other exit costs.

10. Pension Benefit Plans and Other Postretirement Benefits

Pension Benefit Plans

The Company participates in OI Inc.'s defined benefit pension plans for a substantial number of employees located in the United States. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. OI Inc.'s policy is to fund pension plans such

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

that sufficient assets will be available to meet future benefit requirements. Independent actuaries determine pension costs for each subsidiary of OI Inc. included in the plans; however, accumulated benefit obligation information and plan assets pertaining to each subsidiary have not been separately determined. As such, the accumulated benefit obligation and the plan assets related to the pension plans for domestic employees have been retained by another subsidiary of OI Inc. Net expense to results of operations for the Company's allocated portion of the domestic pension costs amounted to \$19 million in 2014, \$48 million in 2013 and \$20 million in 2012.

OI Inc. also sponsors several defined contribution plans for all salaried and hourly U.S. employees of the Company. Participation is voluntary and participants' contributions are based on their compensation. OI Inc. matches contributions of participants, up to various limits, in substantially all plans. OI Inc. charges the Company for its share of the match. The Company's share of the contributions to these plans amounted to \$17 million in 2014, \$13 million in 2013 and \$14 million in 2012.

The Company also has defined benefit pension plans covering a substantial number of employees in several non-U.S. jurisdictions. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. The Company's policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. The Company's defined benefit pension plans use a December 31 measurement date.

The changes in the non-U.S. pension plans benefit obligations for the year were as follows:

	<u>2014</u>	<u>2013</u>
Obligations at beginning of year	\$1,866	\$1,911
Change in benefit obligations:		
Service cost	23	33
Interest cost	69	72
Actuarial (gain) loss, including the effect of change in discount rates	131	(5)
Curtailment and plan amendment	(567)	(52)
Participant contributions	5	7
Benefit payments	(91)	(101)
Foreign currency translation	(125)	1
Net change in benefit obligations	<u>(555)</u>	<u>(45)</u>
Obligations at end of year	<u>\$1,311</u>	<u>\$1,866</u>

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The changes in the fair value of the non-U.S. pension plans' assets for the year were as follows:

	<u>2014</u>	<u>2013</u>
Fair value at beginning of year	\$1,578	\$1,527
Change in fair value:		
Actual gain on plan assets	188	61
Benefit payments	(91)	(101)
Employer contributions	28	92
Participant contributions	5	7
Settlements	(519)	
Foreign currency translation	(94)	(5)
Other	(1)	(3)
Net change in fair value of assets	<u>(484)</u>	<u>51</u>
Fair value at end of year	<u>\$1,094</u>	<u>\$1,578</u>

The funded status of the non-U.S. pension plans at year end was as follows:

	<u>2014</u>	<u>2013</u>
Plan assets at fair value	\$1,094	\$1,578
Projected benefit obligations	<u>1,311</u>	<u>1,866</u>
Plan assets less than projected benefit obligations	(217)	(288)
Items not yet recognized in pension expense:		
Actuarial loss	347	488
Prior service credit		<u>(25)</u>
	<u>347</u>	<u>463</u>
Net amount recognized	<u>\$ 130</u>	<u>\$ 175</u>

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Pension assets	\$ 22	\$ 22
Current pension liability, included with Other accrued liabilities	(9)	(6)
Pension benefits	(230)	(304)
Accumulated other comprehensive loss	347	463
Net amount recognized	<u>\$ 130</u>	<u>\$ 175</u>

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The following changes in plan assets and benefit obligations were recognized in accumulated other comprehensive income at December 31, 2014 and 2013 as follows (amounts are pretax):

	<u>2014</u>	<u>2013</u>
Current year actuarial loss	\$ (23)	\$ 28
Amortization of actuarial loss	(20)	(28)
Amortization of prior service credit	2	1
Curtailement and plan amendment	22	(52)
Settlement	<u>(64)</u>	<u>(6)</u>
	(83)	(57)
Translation	<u>(32)</u>	<u>(5)</u>
	<u>\$ (115)</u>	<u>\$ (62)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$1,234 million and \$1,790 million at December 31, 2014 and 2013, respectively.

The components of the non-U.S. pension plans' net pension expense were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Service cost	\$ 23	\$ 33	\$ 26
Interest cost	69	72	77
Expected asset return	(86)	(91)	(87)
Amortization:			
Actuarial loss	18	28	22
Prior service credit	<u>—</u>	<u>(1)</u>	<u>—</u>
Net amortization	<u>18</u>	<u>27</u>	<u>22</u>
Net expense	<u>\$ 24</u>	<u>\$ 41</u>	<u>\$ 38</u>

On October 1, 2014, the Company settled the liability associated with its pension plan in the Netherlands. The non-U.S. pension expense excludes \$3 million, \$6 million and \$11 million of pension settlement costs that were recorded in restructuring expense in 2014, 2013 and 2012, respectively.

Amounts that are expected to be amortized from accumulated other comprehensive income into net pension expense during 2015:

Amortization:	
Actuarial loss	\$16
Prior service cost	<u>—</u>
Net amortization	<u>\$16</u>

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The following information is for plans with projected and accumulated benefit obligations in excess of the fair value of plan assets at year end:

	Projected Benefit Obligation Exceeds Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds Fair Value of Plan Assets	
	2014	2013	2014	2013
Projected benefit obligations	\$1,049	\$1,588	\$1,049	\$1,588
Accumulated benefit obligation	1,023	1,537	1,023	1,537
Fair value of plan assets	810	1,278	810	1,278

The weighted average assumptions used to determine benefit obligations were as follows:

	2014	2013
Discount rate	3.58%	4.14%
Rate of compensation increase	2.89%	3.31%

The weighted average assumptions used to determine net periodic pension costs were as follows:

	2014	2013	2012
Discount rate	4.14%	3.89%	4.75%
Rate of compensation increase	3.31%	3.08%	3.23%
Expected long-term rate of return on assets	7.23%	6.34%	6.24%

Future benefits are assumed to increase in a manner consistent with past experience of the plans, which, to the extent benefits are based on compensation, includes assumed salary increases as presented above.

For 2014, the Company's weighted average expected long-term rate of return on assets was 7.23% for the non-U.S. plans. In developing this assumption, the Company evaluated input from its third party pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered its historical 10-year average return (through December 31, 2013), which was in line with the expected long-term rate of return assumption for 2014.

It is the Company's policy to invest pension plan assets in a diversified portfolio consisting of an array of asset classes within established target asset allocation ranges. The investment risk of the assets is limited by appropriate diversification both within and between asset classes. The assets for the U.S. plans are maintained in a group trust. The U.S. plans hold no individual assets other than the investment in the group trust. The assets of the group trust and the Company's non-U.S. plans are primarily invested in a broad mix of domestic and international equities, domestic and international bonds, and real estate, subject to the target asset allocation ranges. The assets are managed with a view to ensuring that sufficient liquidity will be available to meet expected cash flow requirements.

The investment valuation policy of the Company is to value investments at fair value. All investments are valued at their respective net asset values. Equity securities for which market

Owens-Brockway Glass Container Inc.
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

quotations are readily available are valued at the last reported sales price on their principal exchange on valuation date or official close for certain markets. Fixed income investments are valued by an independent pricing service. Investments in registered investment companies or collective pooled funds are valued at their respective net asset values. Short-term investments are stated at amortized cost, which approximates fair value. The fair value of real estate is determined by periodic appraisals.

The following table sets forth by level, within the fair value hierarchy, the Company's pension plan assets at fair value as of December 31, 2013 and 2012:

	2014			2013			Target Allocation
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 14	\$ —	\$—	\$ 39	\$ 6	\$—	
Equity securities	343	200		387	210		45 - 55%
Debt securities	364	119	2	752	116	2	40 - 50%
Real estate		30	3			6	0 - 10%
Other		19		13	47		0 - 10%
Total assets at fair value	<u>\$721</u>	<u>\$368</u>	<u>\$ 5</u>	<u>\$1,191</u>	<u>\$379</u>	<u>\$ 8</u>	

The following is a reconciliation of the Company's pension plan assets recorded at fair value using significant unobservable inputs (Level 3):

	2014	2013
Beginning balance	\$ 8	\$ 18
Net increase (decrease)	(3)	(10)
Ending balance	<u>\$ 5</u>	<u>\$ 8</u>

The net increase (decrease) in the fair value of the Company's Level 3 pension plan assets is primarily due to purchases and sales of unlisted real estate funds. The change in the fair value of Level 3 pension plan assets due to actual return on those assets was immaterial in 2014.

In order to maintain minimum funding requirements, the Company is required to make contributions to its non-U.S. defined benefit pension plans of approximately \$20 million in 2015.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	
2015	\$ 61
2016	63
2017	63
2018	65
2019	68
2020 - 2024	373

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

Postretirement Benefits Other Than Pensions

OI Inc. provides retiree health care and life insurance benefits covering certain U.S. salaried and hourly employees. Benefits provided by the Company for hourly retirees are determined by collective bargaining. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. Independent actuaries determine postretirement benefit costs for each subsidiary of OI Inc.; however, accumulated postretirement benefit obligation information pertaining to each subsidiary has not been separately determined. As such, the accumulated postretirement benefit obligation has been retained by another subsidiary of OI Inc.

The Company's net periodic postretirement benefit cost, as allocated by OI Inc., for domestic employees was \$1 million, \$3 million, and \$6 million at December 31, 2014, 2013, and 2012, respectively.

The Company also has postretirement benefit plans covering substantially all employees in Canada. The following tables relate to the Company's postretirement benefit plans in Canada.

The changes in the postretirement benefit obligations for the year were as follows:

	<u>2014</u>	<u>2013</u>
Obligations at beginning of year	\$90	\$102
Change in benefit obligations:		
Service cost	1	1
Interest cost	4	4
Actuarial (gain) loss, including the effect of changing discount rates	(2)	(7)
Benefit payments	(3)	(4)
Foreign currency translation	(7)	(6)
Other	(2)	—
Net change in benefit obligations	<u>(9)</u>	<u>(12)</u>
Obligations at end of year	<u>\$81</u>	<u>\$ 90</u>

The funded status of the postretirement benefit plans at year end was as follows:

	<u>2014</u>	<u>2013</u>
Postretirement benefit obligations	\$(81)	\$(90)
Items not yet recognized in net postretirement benefit cost:		
Actuarial loss	<u>(3)</u>	<u>(2)</u>
Net amount recognized	<u>\$(84)</u>	<u>\$(92)</u>

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Current nonpension postretirement benefit, included with Other accrued liabilities	\$ (3)	\$ (4)
Nonpension postretirement benefits	(78)	(86)
Accumulated other comprehensive loss	<u>(3)</u>	<u>(2)</u>
Net amount recognized	<u><u>\$(84)</u></u>	<u><u>\$(92)</u></u>

The following changes in benefit obligations were recognized in accumulated other comprehensive income at December 31, 2014 and 2013 as follows (amounts are pretax):

	<u>2014</u>	<u>2013</u>
Current year actuarial (gain) loss	\$(1)	\$(7)

The components of the net postretirement benefit cost for the year were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Service cost	\$1	\$1	\$1
Interest cost	<u>4</u>	<u>4</u>	<u>4</u>
Net postretirement benefit cost	<u><u>\$5</u></u>	<u><u>\$5</u></u>	<u><u>\$5</u></u>

The weighted average discount rates used to determine the accumulated postretirement benefit obligation and net postretirement benefit cost were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Accumulated post retirement benefit obligation	3.75%	4.47%	3.89%
Net postretirement benefit cost	4.47%	3.89%	4.13%

The weighted average assumed health care cost trend rates at December 31 were as follows:

	<u>2014</u>	<u>2013</u>
Health care cost trend rate assumed for next year	5.00%	5.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2014	2014

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. Pension Benefit Plans and Other Postretirement Benefits (Continued)

Assumed health care cost trend rates affect the amounts reported for the postretirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost	\$ 1	\$ (1)
Effect on accumulated postretirement benefit obligations	14	(11)

Amortization included in net postretirement benefit cost is based on the average remaining service of employees.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year(s)	
2015	\$ 3
2016	3
2017	3
2018	3
2019	3
2020 - 2024	18

Other U.S. hourly retirees receive health and life insurance benefits from a multi-employer trust established by collective bargaining. Payments to the trust as required by the bargaining agreements are based upon specified amounts per hour worked and were \$6 million in each of the years 2014, 2013 and 2012. Postretirement health and life benefits for retirees of foreign subsidiaries are generally provided through the national health care programs of the countries in which the subsidiaries are located.

11. Income Taxes

The provision (benefit) for income taxes was calculated based on the following components of earnings (loss) before income taxes:

Continuing operations	2014	2013	2012
U.S.	\$231	\$340	\$297
Non-U.S.	271	249	296
	\$502	\$589	\$593
Discontinued operations			
U.S.	\$—	\$—	\$—
Non-U.S.	(4)	(10)	(5)
	\$(4)	\$(10)	\$(5)

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. Income Taxes (Continued)

The provision (benefit) for income taxes consists of the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current:			
U.S.	\$ 8	\$ 7	\$ —
Non-U.S.	103	116	117
	<u>111</u>	<u>123</u>	<u>117</u>
Deferred:			
U.S.			10
Non-U.S.	(18)	(3)	(13)
	<u>(18)</u>	<u>(3)</u>	<u>(3)</u>
Total:			
U.S.	8	7	10
Non-U.S.	85	113	104
Total	<u>\$ 93</u>	<u>\$120</u>	<u>\$114</u>

A reconciliation of the provision for income taxes based on the statutory U.S. Federal tax rate of 35% to the provision for income taxes is as follows:

	<u>2014</u>	<u>2013</u>
Tax provision on pretax earnings (loss) from continuing operations at statutory U.S. Federal tax rate	\$177	\$206
Increase (decrease) in provision for income taxes due to:		
Differences in income taxes on foreign earnings, losses and remittances	(19)	(29)
Goodwill impairment		
U.S. tax consolidation benefit	(47)	(51)
Changes in valuation allowance	(12)	(1)
Tax audits and settlements	2	1
Other items	(8)	(6)
Provision for income taxes	<u>\$ 93</u>	<u>\$120</u>

Deferred income taxes reflect: (1) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes; and (2) carryovers and credits for income tax purposes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. Income Taxes (Continued)

Significant components of the Company's deferred tax assets and liabilities at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Accrued postretirement benefits	\$ 21	\$ 23
Foreign tax credit	376	356
Operating and capital loss carryovers	334	350
Other credit carryovers	12	29
Accrued liabilities	67	70
Pension liability	29	47
Other	<u>49</u>	<u>60</u>
Total deferred tax assets	888	935
Deferred tax liabilities:		
Property, plant and equipment	114	117
Exchangeable notes		10
Intangibles	34	27
Other	<u>41</u>	<u>65</u>
Total deferred tax liabilities	189	219
Valuation allowance	<u>(595)</u>	<u>(651)</u>
Net deferred taxes	<u>\$ 104</u>	<u>\$ 65</u>

Deferred taxes are included in the Consolidated Balance Sheets at December 31, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Prepaid expenses	\$ 34	\$ 62
Other assets	203	235
Deferred taxes	<u>(133)</u>	<u>(232)</u>
Net deferred taxes	<u>\$ 104</u>	<u>\$ 65</u>

The Company reviews the likelihood that it will realize the benefit of its deferred tax assets and therefore the need for valuation allowances on a quarterly basis, or whenever events indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset is considered, along with other positive and negative evidence.

In certain foreign jurisdictions, the Company's analysis indicates that it has cumulative losses in recent years. This is considered significant negative evidence which is objective and verifiable and, therefore, difficult to overcome. However, the cumulative loss position is not solely determinative and, accordingly, the Company considers all other available positive and negative evidence in its analysis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. Income Taxes (Continued)

Based on its analysis, the Company has recorded a valuation allowance for the portion of deferred tax assets where based on the weight of available evidence it is unlikely to realize those deferred tax assets.

At December 31, 2014, before valuation allowance, the Company had unused foreign tax credits of \$376 million expiring in 2017 through 2024, and research tax credit of \$12 million expiring from 2019 to 2034, which will be available to offset future income tax. Approximately \$174 million of the deferred tax assets related to operating and capital loss carryforwards can be carried over indefinitely, with the remaining \$160 million expiring between 2014 and 2035.

At December 31, 2014, the Company's equity in the undistributed earnings of foreign subsidiaries for which income taxes had not been provided approximated \$2.9 billion. The Company intends to reinvest these earnings indefinitely in the non-U.S. operations and has not distributed any of these earnings to the U.S. in 2014, 2013 or 2012. It is not practicable to estimate the U.S. and foreign tax which would be payable should these earnings be distributed. Deferred taxes are provided for earnings of non-U.S. jurisdictions when the Company plans to remit those earnings.

The Company is included in OI Inc.'s consolidated tax returns for U.S. federal and certain state income tax purposes. The consolidated group has net operating losses, capital losses, alternative minimum tax credits, foreign tax credits and research and development credits available to offset future U.S. Federal income tax. Income taxes are allocated to the Company on a basis consistent with separate returns.

The Company has recognized tax benefits as a result of incentives in certain non-U.S. jurisdictions which expire between 2015 and 2016.

The Company records a liability for unrecognized tax benefits related to uncertain tax positions. The Company accrues interest and penalties associated with unrecognized tax benefits as a component of its income tax expense. The following is a reconciliation of the Company's total gross unrecognized tax benefits for the years ended December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Balance at January 1	\$100	\$ 97	\$125
Additions and reductions for tax positions of prior years	(13)	(3)	8
Additions based on tax positions related to the current year	10	9	7
Reductions due to the lapse of the applicable statute of limitations	(8)	(2)	(21)
Reductions due to settlements	(1)		(26)
Foreign currency translation	(11)	(1)	4
Balance at December 31	<u>\$ 77</u>	<u>\$100</u>	<u>\$ 97</u>
Unrecognized tax benefits, which if recognized, would impact the Company's effective income tax rate	<u>\$ 70</u>	<u>\$ 92</u>	<u>\$ 89</u>
Accrued interest and penalties at December 31	<u>\$ 29</u>	<u>\$ 35</u>	<u>\$ 33</u>
Interest and penalties included in tax expense for the years ended December 31	<u>\$ (2)</u>	<u>\$ 1</u>	<u>\$ (6)</u>

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11. Income Taxes (Continued)

Based upon the outcome of tax examinations, judicial proceedings, or expiration of statute of limitations, it is reasonably possible that the ultimate resolution of these unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities. The Company believes that it is reasonable possible that the estimated liability could decrease up to \$12 million within the next 12 months. This is primarily the result of audit settlements or statute expirations in several taxing jurisdictions.

The Company is currently under examination in various tax jurisdictions in which it operates, including Argentina, Brazil, Canada, Germany, Indonesia, Italy and Peru. The years under examination range from 2005 through 2012. The Company believes that there are no jurisdictions in which the outcome of unresolved issues or claims is likely to be material to the Company's results of operations, financial position or cash flows. The Company further believes that adequate provisions for all income tax uncertainties have been made. During 2014, the Company concluded income tax audits in several jurisdictions, including Australia, Ecuador, Italy, and Poland.

12. External Debt

The following table summarizes the external long-term debt of the Company at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Secured Credit Agreement:		
Revolving Credit Facility:		
Revolving Loans	\$ —	\$ —
Term Loans:		
Term Loan A		
Term Loan B	405	405
Term Loan C (81 million CAD at December 31, 2014)	70	76
Term Loan D (€85 million at December 31, 2014)	103	117
Senior Notes:		
3.00%, Exchangeable, due 2015	18	617
7.375%, due 2016	596	593
6.75%, due 2020 (€500 million)	608	690
4.875%, due 2021 (€330 million)	401	455
5.00%, due 2022	494	
5.375%, due 2025	296	
Capital Leases	51	25
Other	30	20
Total long-term debt	<u>3,072</u>	<u>2,998</u>
Less amounts due within one year	361	15
Long-term debt	<u>\$2,711</u>	<u>\$2,983</u>

On May 19, 2011, the Company entered into the Secured Credit Agreement (the "Agreement"). At December 31, 2014, the Agreement included a \$900 million revolving credit facility, a \$405 million term

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12. External Debt (Continued)

loan, an 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 December 31, 2014, the Company had unused credit of \$804 million available under the Agreement.

The Agreement contains various covenants that restrict, among other things and subject to certain exceptions, the ability of the Company to incur certain liens, make certain investments, become liable under contingent obligations in certain defined instances only, make restricted junior payments, make certain asset sales within guidelines and limits, make capital expenditures beyond a certain threshold, engage in material transactions with shareholders and affiliates, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain outstanding debt obligations.

The Agreement also contains one financial maintenance covenant, a Leverage Ratio, that requires the Company not to exceed a ratio calculated by dividing consolidated total debt, less cash and cash equivalents, by Consolidated Adjusted EBITDA, as defined in the Agreement. The Leverage Ratio could restrict the ability of the Company to undertake additional financing or acquisitions to the extent that such financing or acquisitions would cause the Leverage Ratio to exceed the specified maximum of 4.0x.

Failure to comply with these covenants and restrictions could result in an event of default under the Agreement. In such an event, the Company could not request borrowings under the revolving facility, and all amounts outstanding under the Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Agreement and the lenders cause all of the outstanding debt obligations under the Agreement to become due and payable, this would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. A default or event of default under the Agreement, indentures or agreements governing other indebtedness could also lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross-default provisions.

The Leverage Ratio also determines pricing under the Agreement. The interest rate on borrowings under the Agreement is, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Agreement. These rates include a margin linked to the Leverage Ratio. The margins range from 1.25% to 2.00% for Eurocurrency Rate loans and from 0.25% to 1.00% for Base Rate loans. In addition, a facility fee is payable on the revolving credit facility commitments ranging from 0.25% to 0.50% per annum linked to the Leverage Ratio. The weighted average interest rate on borrowings outstanding under the Agreement at December 31, 2014 was 2.09%. As of December 31, 2014, the Company was in compliance with all covenants and restrictions in the Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Agreement will not be adversely affected by the covenants and restrictions.

Borrowings under the Agreement are secured by substantially all of the assets, excluding real estate, of the Company's domestic subsidiaries and certain foreign subsidiaries. Borrowings are also secured by a pledge of intercompany debt and equity in most of the Company's domestic subsidiaries and stock of certain foreign subsidiaries. All borrowings under the agreement are guaranteed by substantially all domestic subsidiaries of the Company for the term of the Agreement.

During December 2014, the Company issued senior notes with a face value of \$500 million that bear interest at 5.00% and are due January 15, 2022. The Company also issued senior notes with a face

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12. External Debt (Continued)

value of \$300 million that bear interest at 5.375% and are due January 15, 2025. The New Senior Notes, which include both the senior notes due in 2022 and 2025, were issued via a private placement and are guaranteed by substantially all of the Company's domestic subsidiaries. The net proceeds from the New Senior Notes, after deducting debt issuance costs, totaled approximately \$790 million and were used to purchase in a tender offer \$611 million aggregate principal amount of the Company's 3.00% exchangeable senior notes due June 1, 2015. Approximately \$18 million of the exchangeable senior notes remain outstanding as of December 31, 2014. As part of the tender offer, the Company recorded \$20 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees in the fourth quarter of 2014.

During March 2013, the Company issued, in a private placement, 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 its 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 as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Balance (included in short-term loans)	\$ 122	\$ 276
Weighted average interest rate	1.41%	1.41%

Annual maturities for all of the Company's long-term debt through 2019 are as follows: 2015, \$361 million; 2016, \$882 million; 2017, \$2 million; 2018, \$3 million; and 2019, \$3 million.

Fair values at December 31, 2014, of the Company's significant fixed rate debt obligations are as follows:

	<u>Principal Amount</u>	<u>Indicated Market Price</u>	<u>Fair Value</u>
Senior Notes:			
7.375%, 2016	\$600	\$106.70	\$640
6.75%, due 2020 (€500 million)	608	118.85	723
4.875%, due 2021 (€330 million)	401	110.00	441
5.00%, due 2022	500	101.81	509
5.375%, due 2025	300	101.25	304

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13. Contingencies

Certain litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are nonroutine and involve compensatory, punitive or treble damage claims as well as other types of relief. The Company records a liability for such matters when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. Recorded amounts are reviewed and adjusted to reflect changes in the factors upon which the estimates are based including additional information, negotiations, settlements, and other events. The ultimate legal and financial liability of the Company in respect to this pending litigation cannot reasonably be estimated. However, the Company believes, based on its examination and review of such matters and experience to date, that such ultimate liability will not have a material adverse effect on its results of operations or financial condition.

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 \$85 million (including penalties and interest). The Company challenged this assessment, but the tax authority's position was upheld in court. The case was heard by a higher court in November 2014, and on February 5, 2015, the Company was informed that the higher court had issued a unfavorable verdict. The Company strongly disagrees with this ruling, however, there are no further appeals available to the Company. The unfavorable ruling has resulted in a charge of \$69 million. In order to contest the lower court rulings, legal rules required the Company to deposit the amount of the tax assessment, including penalties and interest. As of December 31, 2014, the Company has made installment payments totaling \$76 million and a net refund of approximately \$7 million is expected.

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

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

13. Contingencies (Continued)

and adjusted to reflect changes in the factors upon which the estimates are based, including additional information, negotiations, settlements and other events.

14. Accumulated Other Comprehensive Income

The components of comprehensive income are: (a) net earnings; (b) change in fair value of certain derivative instruments; (c) pension and other postretirement benefit adjustments; and (d) foreign currency translation adjustments. The net effect of exchange rate fluctuations generally reflects changes in the relative strength of the U.S. dollar against major foreign currencies between the beginning and end of the year.

The following table lists the beginning balance, annual activity and ending balance of each component of accumulated other comprehensive income (loss):

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments	Employee Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance on January 1, 2013	\$ 455	\$(1)	\$(402)	\$ 52
Change before reclassifications	(226)	1	35	(190)
Amounts reclassified from accumulated other comprehensive income		1(a)	33(b)	34
Tax effect	—	—	(33)	(33)
Other comprehensive income attributable to the Company	(226)	2	35	(189)
Balance on December 31, 2013	\$ 229	\$ 1	\$(367)	\$(137)
Change before reclassifications	(284)	3	136	(145)
Amounts reclassified from accumulated other comprehensive income		(2)(a)	18(b)	16
Translation effect			(32)	(32)
Tax effect	—	—	(10)	(10)
Other comprehensive income attributable to the Company	(284)	1	112	(171)
Balance on December 31, 2014	<u>\$ (55)</u>	<u>\$ 2</u>	<u>\$(255)</u>	<u>\$(308)</u>

(a) Amount is included in Cost of goods sold on the Consolidated Results of Operations (see Note 8 for additional information).

(b) Amount is included in the computation of net periodic pension cost and net postretirement benefit cost (see Note 10 for additional information).

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

15. Other Expense, net

Other expense, net for the year ended December 31, 2014, 2013, and 2012 included the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Non-income tax charge	\$ 69	\$ —	\$ —
Restructuring, asset impairment and related charges	68	97	159
Charge for Argentina impairment		22	
Gain on China land compensation			(61)
Foreign currency exchange (gain) loss	(2)	9	8
Other expense (income)	<u>3</u>	<u>(5)</u>	<u>(13)</u>
	<u>\$138</u>	<u>\$123</u>	<u>\$ 93</u>

In 2014, the Company recorded charges totaling \$76 million for restructuring, asset impairment and related charges. These charges include \$68 million recorded to other expense and \$8 million recorded to cost of goods sold. See Note 9 for additional information.

16. Operating Leases

Rent expense attributable to all warehouse, office buildings, and equipment operating leases was \$61 million in 2014, \$53 million in 2013 and \$69 million in 2012. Minimum future rentals under operating leases are as follows: 2015, \$52 million; 2016, \$44 million; 2017, \$39 million; 2018, \$33 million; 2019, \$23 million; and 2020 and thereafter, \$40 million.

17. Supplemental Cash Flow Information

Changes in the components of working capital related to operations (net of the effects related to acquisitions and divestitures) were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Decrease (increase) in current assets:			
Receivables	\$ 83	\$ 19	\$206
Inventories	(27)	(29)	(74)
Prepaid expenses	29	6	(1)
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities	48	126	(83)
Salaries and wages	12	(5)	19
U.S. and foreign income taxes	<u>13</u>	<u>7</u>	<u>(76)</u>
	<u>\$158</u>	<u>\$124</u>	<u>\$ (9)</u>

Interest paid in cash, including note repurchase premiums, aggregated \$177 million for 2014, \$185 million for 2013 and \$223 million for 2012.

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

17. Supplemental Cash Flow Information (Continued)

Income taxes paid in cash were as follows:

	2014	2013	2012
U.S.	\$ —	\$ —	\$ —
Non-U.S.	101	128	132
	\$101	\$128	\$132

18. Discontinued Operations

The loss from discontinued operations of \$4 million for the year ended December 31, 2014 represents ongoing costs related to the Venezuela expropriation.

The loss from discontinued operations of \$10 million for the year ended December 31, 2013 represents ongoing costs related to the Venezuela expropriation.

The loss from discontinued operations of \$2 million for the year ended December 31, 2012 included ongoing costs related to the Venezuelan expropriation.

19. Guarantees of Debt

OI Group and the Company guarantee OI Inc.'s senior debentures on a subordinated basis. The fair value of the OI Inc. debt being guaranteed was \$281 at December 31, 2014.

20. Related Party Transactions

Charges for administrative services are allocated to the Company by OI Inc. based on an annual utilization level. Such services include compensation and benefits administration, payroll processing, use of certain general accounting systems, auditing, income tax planning and compliance, and treasury services.

Allocated costs also include charges associated with OI Inc.'s equity compensation plans. A substantial number of the options, restricted share units and performance vested restricted share units granted under these plans have been granted to key employees of another subsidiary of OI Inc., some of whose compensation costs, including stock-based compensation, are included in an allocation of costs to all operating subsidiaries of OI Inc., including the Company.

Management believes that such transactions are on terms no less favorable to the Company than those that could be obtained from unaffiliated third parties.

Owens-Brockway Glass Container Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Tabular data dollars in millions

20. Related Party Transactions (Continued)

The following information summarizes the Company's significant related party transactions:

	Years ended December 31,		
	2014	2013	2012
Revenues:			
Sales to affiliated companies	\$—	\$—	\$ —
Expenses:			
Administrative services	\$ 2	\$ 2	\$ 3
Corporate management fee	75	80	115
Total expenses	\$77	\$82	\$118

The above expenses are recorded in the results of operations as follows:

	Years ended December 31,		
	2014	2013	2012
Cost of goods sold	\$—	\$—	\$ 1
Selling, general and administrative expenses	77	82	117
Total expenses	\$77	\$82	\$118

INDEX TO FINANCIAL STATEMENT SCHEDULE

Financial Statement Schedule of Owens-Illinois, Inc. and Subsidiaries:

For the years ended December 31, 2014, 2013, and 2012:

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II—Valuation and Qualifying Accounts (Consolidated)	S-1

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OWENS-ILLINOIS, INC.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS (CONSOLIDATED)

Years ended December 31, 2014, 2013, and 2012
(Millions of Dollars)

Reserves deducted from assets in the balance sheets:

Allowances for losses and discounts on receivables

	Balance at beginning of period	Additions		Deductions (Note 1)	Balance at end of period
		Charged to costs and expenses	Other		
2014	\$39	\$15	\$(12)	\$(8)	\$34
2013	\$41	\$11	\$ (5)	\$(8)	\$39
2012	\$38	\$17	\$ (5)	\$(9)	\$41

(1) Deductions from allowances for losses and discounts on receivables represent uncollectible notes and accounts written off.

Valuation allowance on net deferred tax assets

	Balance at beginning of period	Charged to income	Charged to other comprehensive income	Foreign currency translation		Balance at end of period
				Other		
2014	\$ 990	\$37	\$ 55	\$(15)	\$(31)	\$1,036
2013	\$1,171	\$37	\$(187)	\$ (7)	\$(24)	\$ 990
2012	\$1,176	\$(7)	\$ (10)	\$ 3	\$ 9	\$1,171

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OWENS-ILLINOIS, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of dollars, except ratios)

	Years ended December 31,				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Earnings (loss) from continuing operations before income taxes . .	\$218	\$335	\$328	\$(396)	\$426
Less: Equity earnings	(64)	(67)	(64)	(66)	(59)
Add: Total fixed charges deducted from earnings	238	242	257	320	260
Dividends received from equity investees	54	67	50	50	62
Earnings available for payment of fixed charges	<u>\$446</u>	<u>\$577</u>	<u>\$571</u>	<u>\$ (92)</u>	<u>\$689</u>
Fixed charges (including the Company's proportional share of 50% owned associates):					
Interest expense	\$235	\$239	\$248	\$ 314	\$249
Portion of operating lease rental deemed to be interest	3	3	9	6	11
Total fixed charges deducted from earnings	<u>\$238</u>	<u>\$242</u>	<u>\$257</u>	<u>\$ 320</u>	<u>\$260</u>
Ratio of earnings to fixed charges	1.9	2.4	2.2		2.7
Deficiency of earnings available to cover fixed charges				\$ 412	

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SUBSIDIARIES OF OWENS-ILLINOIS, INC.

Owens-Illinois, Inc. had the following subsidiaries at December 31, 2014 (subsidiaries are indented following their respective parent companies):

<u>Name</u>	<u>State/Country of Incorporation or Organization</u>
Owens-Illinois Group, Inc.	Delaware
OI General Finance Inc.	Delaware
OI General FTS Inc.	Delaware
OI Castalia STS Inc.	Delaware
OI Levis Park STS Inc.	Delaware
Owens-Illinois General Inc.	Delaware
Owens Insurance, Ltd.	Bermuda
Universal Materials, Inc.	Ohio
OI Advisors, Inc.	Delaware
OI Securities, Inc.	Delaware
OI Transfer, Inc.	Delaware
Maumee Air Associates Inc.	Delaware
OI Australia Inc.	Delaware
Continental PET Holdings Pty. Ltd.	Australia
ACI America Holdings Inc.	Delaware
ACI Ventures, Inc.	Delaware
Owens-Brockway Packaging, Inc.	Delaware
Owens-Brockway Glass Container Inc.	Delaware
OI Andover Group Inc.	Delaware
The Andover Group, Inc.	Delaware
Brockway Realty Corporation	Pennsylvania
NHW Auburn, LLC	Delaware
OI Auburn Inc.	Delaware
SeaGate, Inc.	Ohio
SeaGate II, Inc.	Ohio
SeaGate III, Inc.	Ohio
OIB Produvisa Inc.	Delaware
OI Puerto Rico STS Inc.	Delaware
O-I Caribbean Sales & Distribution Inc.	Delaware
O-I Latam HQ, Inc.	Delaware
Bolivian Investments, Inc.	Delaware
Fabrica Boliviana de Vidrios S.A.	Bolivia
OI International Holdings Inc.	Delaware
O-I Glass JV Mexico SARL	Luxembourg
O-I Holding LLC	Delaware
OI Global C.V.	Netherlands
OI Hungary LLC	Delaware
O-I Manufacturing Hungary Limited	Hungary
O-I Sales & Distribution Hungary Kft.	Hungary
O-I Ecuador LLC	Ohio
Cristaleria del Ecuador, S.A.	Ecuador
OI European Group B.V.	Netherlands
Owens-Illinois Singapore Pte. Ltd.	Singapore
OI China LLC	Delaware
Wuhan Owens Glass Container Company Limited	China

<u>Name</u>	<u>State/Country of Incorporation or Organization</u>
ACI Beijing Limited	Hong Kong
OI Tianjin Glass Co. Ltd.	China
Owens-Illinois Services H.K. Limited	Hong Kong
ACI Guangdong Limited	Hong Kong
ACI Guangdong Glass Company Limited	China
ACI Shanghai Limited	Hong Kong
ACI Shanghai Glass Company Limited	China
Owens-Illinois (HK) Limited	Hong Kong
O-I (Shanghai) Management Co Ltd.	China
O-I Zhaoqing Glass Co. Ltd.	China
O-I Sihui Glass Recycling Co. Ltd.	China
Owens-Illinois (Australia) Pty Ltd	Australia
ACI Packaging Services Pty Ltd	Australia
ACI Operations Pty. Ltd.	Australia
ACI International Pty Ltd	Australia
ACI Glass Packaging Penrith Pty Ltd.	Australia
PT Kangar Consolidated Industries	Indonesia
ACI Operations NZ Limited	New Zealand
O-I Asia-Pacific Holdings	Mauritius
O-I Trading (Shanghai) Company Ltd.	China
O-I Sales and Distribution Netherlands B.V.	Netherlands
O-I Europe Sarl	Switzerland
O-I Sales and Distribution Italy S.r.l.	Italy
O-I Sales and Distribution UK Limited.	United Kingdom
O-I Sales and Distribution Poland Sp Z.o.o.	Poland
O-I Business Service Center Sp. Z.o.o.	Poland
O-I Manufacturing Poland S.A.	Poland
UGG Holdings Ltd.	United Kingdom
O-I Overseas Management Company Ltd.	Delaware
United Glass Group Ltd.	United Kingdom
O-I Manufacturing (UK) Limited	United Kingdom
O-I Sales and Distribution Spain SL	Spain
Vidrieria Rovira, S. L.	Spain
OI Spanish Holdings B.V.	Netherlands
Owens-Illinois Peru S. A.	Peru
O-I Manufacturing Italy S.p.A.	Italy
O-I Manufacturing Czech Republic A.S.	Czech Republic
O-I Sales and Distribution Czech Republic s.r.o.	Czech Republic
San Domenico Vetraria S.r.l.	Italy
O-I Manufacturing Netherlands B.V.	Netherlands
Veglarec B.V.	Netherlands
O-I Europe SAS	France
O-I Manufacturing France SAS	France
O-I Sales and Distribution France SAS	France
O-I Distribution SO	France
Champagne Emballage	France
O-I Glasspack Beteiligungs & Verwaltungsgesellschaft GmbH	Germany
OI Glasspack GmbH & Co. KG	Germany

<u>Name</u>	<u>State/Country of Incorporation or Organization</u>
O-I Sales and Distribution Germany GmbH	Germany
OI Canada Holdings B.V.	Netherlands
O-I Canada Corp.	Canada
Manufacturera de Vidrios Planos, C.A.	Venezuela
Owens-Illinois de Venezuela, C. A.	Venezuela
Fabrica de Vidrio Los Andes, C. A.	Venezuela
CMC S.A.	Colombia
O-I Latam Services S.A.S.	Colombia
Cristaleria Peldar, S.A.	Colombia
Cristar S.A.	Colombia
Industria de Materias Primas S.A.	Colombia
Vidrieria Fenicia	Colombia
Owens-Illinois do Brasil Industria e Comercio S.A.	Brazil
Mineracao Silminas Ltda.	Brazil
Mineracao Descalvado Ltda.	Brazil
OI Finnish Holdings Oy	Finland
O-I Sales and Distribution Finland OY	Finland
O-I Sales and Distribution LT	Lithuania
O-I Production Estonia AS	Estonia
O-I Sales and Distribution Estonia OU	Estonia
O-I GMEC Lurin srl	Peru
O-I Jaroslaw Machine Service Center	Poland
Owens-Illinois Argentina S.A.	Argentina

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DIRECTORS AND OFFICERS

Directors

Albert P. L. Stroucken

Chairman, President and Chief Executive Officer

Gary F. Colter

President of CRS Inc.

Jay L. Geldmacher

Chief Executive Officer, Artesyn Embedded Technologies

Peter S. Hellman

President and Chief Financial and Administrative Officer (retired), Nordson Corporation

Anastasia D. Kelly

Partner, DLA Piper

John J. McMackin, Jr.

Principal, Williams & Jensen, PLLC

Hari N. Nair

Chief Operating Officer (retired), Tenneco, Inc.

Hugh H. Roberts

President (retired), Kraft Foods International Commercial

Helge H. Wehmeier

President and Chief Executive Officer (retired), Bayer Corporation

Carol A. Williams

Special Advisor to the Chief Executive Officer (retired), Dow Chemical Company

Dennis K. Williams

Chairman of the Board (retired), IDEX Corporation

Thomas L. Young

President, Titus Holding Ltd.

Officers

Albert P. L. Stroucken

Chairman, President and Chief Executive Officer

Andres A. Lopez

President of Glass Containers and Chief Operating Officer

Stephen P. Bramlage, Jr.

Senior Vice President and Chief Financial Officer

James W. Baehren

Senior Vice President and General Counsel

Paul A. Jarrell

Senior Vice President and Chief Administrative Officer

Sergio B. O. Galindo

President O-I Asia Pacific

COMPANY INFORMATION

Exchange Listing

Owens-Illinois common stock (symbol OI) is listed on the New York Stock Exchange.

Transfer Agent for Common Stock

Computershare Trust Company, N.A.
P.O. Box 30170
College Station, TX 77842-3170

Private couriers and registered mail:
211 Quality Circle, Suite 210
College Station, TX 77845

Computershare website:
<http://www.computershare.com>
Phone: (781) 575-2724
Hearing-impaired: TDD 1-800-952-9245

Any inquiries regarding your account or certificates should be referred to Computershare Trust Company, N.A.

Trustees

U.S. Bank, N.A.
Global Corporate Trust Services
60 Livingston Avenue
EP-MN-WS3C
St. Paul, MN 55107-1419

3.00% Exchangeable Senior Notes, due 2015
7.375% Senior Notes, due 2016
5.00% Senior Notes, due 2022
5.375% Senior Notes, due 2025

The Bank of New York
101 Barclay Street
New York, NY 10286

7.80% Senior Debentures, due 2018

Deutsche Bank AG, London Branch
Trust and Agency Services
Winchester House
1 Great Winchester Street
London, England EC2N 2DB

6.75% Senior Notes, due 2020
4.875% Senior Notes, due 2021

Annual Meeting

The annual meeting of share owners will be held at 9:00 a.m. on Tuesday, May 12, 2015, in Plaza 2 of the O-I World Headquarters Campus, Perrysburg, OH.

Forms 10-K and 10-Q

The Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, filed with the Securities and Exchange Commission, may be obtained without charge by contacting:

Owens-Illinois, Inc.
Investor Relations
One Michael Owens Way
Perrysburg, OH 43551
Phone: (567) 336-2400

These reports are also available without charge on the Company's website at www.o-i.com

Website

For further information about O-I, visit the Company's website at www.o-i.com

Annual Certifications

The most recent certifications by the Chief Executive Officer and the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to the Company's Form 10-K. The Company has also filed with the New York Stock Exchange the most recent Annual CEO Certification as required by Section 303.12(a) of the New York Stock Exchange Listed Company Manual.

Corporate Headquarters

Owens-Illinois, Inc.
One Michael Owens Way
Perrysburg, OH 43551

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