

OWENS ILLINOIS INC /DE/
Form 10-Q
October 24, 2017
en mple

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended

September 30, 2017

or

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

For the transition period from to

Commission file number 1-9576

OWENS-ILLINOIS, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|--------------------------------------|
| Delaware | 22-2781933 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

| | |
|--|------------|
| One Michael Owens Way, Perrysburg, Ohio | 43551 |
| (Address of principal executive offices) | (Zip Code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

| | | |
|---------------------------|-------------------------|---|
| Large accelerated filer | Accelerated filer | Non-accelerated filer |
| Smaller reporting company | Emerging growth company | (Do not check if a smaller reporting |

company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of common stock, par value \$.01, of Owens-Illinois, Inc. outstanding as of September 30, 2017 was 162,990,974.

Part I — FINANCIAL INFORMATION

Item 1. Financial Statements.

The Condensed Consolidated Financial Statements of Owens-Illinois, Inc. (the “Company”) presented herein are unaudited but, in the opinion of management, reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. All adjustments are of a normal recurring nature. Because the following unaudited condensed consolidated financial statements have been prepared in accordance with Article 10 of Regulation S-X, they do not contain all information and footnotes normally contained in annual consolidated financial statements; accordingly, they should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

(Dollars in millions, except per share amounts)

| | Three months ended | | Nine months ended | |
|---|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net sales | \$ 1,791 | \$ 1,712 | \$ 5,157 | \$ 5,060 |
| Cost of goods sold | (1,438) | (1,376) | (4,143) | (4,063) |
| Gross profit | 353 | 336 | 1,014 | 997 |
| Selling and administrative expense | (120) | (121) | (362) | (375) |
| Research, development and engineering expense | (15) | (16) | (46) | (48) |
| Interest expense, net | (63) | (66) | (204) | (199) |
| Equity earnings | 22 | 15 | 55 | 44 |
| Other income (expense), net | (5) | 5 | (61) | (24) |
| Earnings from continuing operations before income taxes | 172 | 153 | 396 | 395 |
| Provision for income taxes | (37) | (36) | (65) | (93) |
| Earnings from continuing operations | 135 | 117 | 331 | 302 |
| Loss from discontinued operations | (2) | (3) | (2) | (6) |
| Net earnings | 133 | 114 | 329 | 296 |
| Net earnings attributable to noncontrolling interests | (7) | (6) | (15) | (16) |
| Net earnings attributable to the Company | \$ 126 | \$ 108 | \$ 314 | \$ 280 |
| Amounts attributable to the Company: | | | | |
| Earnings from continuing operations | \$ 128 | \$ 111 | \$ 316 | \$ 286 |
| Loss from discontinued operations | (2) | (3) | (2) | (6) |
| Net earnings | \$ 126 | \$ 108 | \$ 314 | \$ 280 |
| Basic earnings per share: | | | | |
| Earnings from continuing operations | \$ 0.78 | \$ 0.68 | \$ 1.94 | \$ 1.76 |
| Loss from discontinued operations | (0.01) | (0.02) | (0.01) | (0.04) |
| Net earnings | \$ 0.77 | \$ 0.66 | \$ 1.93 | \$ 1.72 |
| Weighted averages shares outstanding (thousands) | 162,866 | 162,080 | 162,658 | 161,744 |
| Diluted earnings per share: | | | | |
| Earnings from continuing operations | \$ 0.77 | \$ 0.68 | \$ 1.92 | \$ 1.75 |
| Loss from discontinued operations | (0.01) | (0.02) | (0.01) | (0.04) |
| Net earnings | \$ 0.76 | \$ 0.66 | \$ 1.91 | \$ 1.71 |

| | | | | |
|--|---------|---------|---------|---------|
| Weighted average diluted shares outstanding (thousands) | 164,993 | 163,204 | 164,440 | 162,607 |
|--|---------|---------|---------|---------|

See accompanying notes.

2

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

(Dollars in millions)

| | Three months ended | | Nine months ended | |
|--|-----------------------|--------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net earnings | \$ 133 | \$ 114 | \$ 329 | \$ 296 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | 10 | (79) | 212 | (93) |
| Pension and other postretirement benefit adjustments, net of tax | 10 | 21 | 25 | 5 |
| Change in fair value of derivative instruments, net of tax | | (1) | (10) | 5 |
| Other comprehensive income (loss): | 20 | (59) | 227 | (83) |
| Total comprehensive income | 153 | 55 | 556 | 213 |
| Comprehensive income attributable to noncontrolling interests | (8) | (4) | (8) | (6) |
| Comprehensive income attributable to the Company | \$ 145 | \$ 51 | \$ 548 | \$ 207 |

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

| | September 30, 2017 | December 31, 2016 | September 30, 2016 |
|---|--------------------------|-------------------------|--------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 339 | \$ 492 | \$ 294 |
| Trade receivables, net of allowance of \$36 million, \$32 million, and \$32 million at September 30, 2017, December 31, 2016 and September 30, 2016 | 1,028 | 580 | 857 |
| Inventories | 1,046 | 983 | 1,057 |
| Prepaid expenses and other current assets | 254 | 199 | 234 |
| Total current assets | 2,667 | 2,254 | 2,442 |
| Property, plant and equipment, net | 3,036 | 2,880 | 2,917 |
| Goodwill | 2,621 | 2,462 | 2,534 |
| Intangibles, net | 473 | 464 | 490 |
| Other assets | 1,202 | 1,075 | 1,114 |
| Total assets | \$ 9,999 | \$ 9,135 | \$ 9,497 |
| Liabilities and Share Owners' Equity | | | |
| Current liabilities: | | | |
| Short-term loans and long-term debt due within one year | \$ 243 | \$ 195 | \$ 262 |
| Current portion of asbestos-related liabilities | 115 | 115 | 130 |
| Accounts payable | 1,087 | 1,135 | 1,059 |
| Other liabilities | 617 | 615 | 582 |
| Other liabilities - discontinued operations | 115 | | |
| Total current liabilities | 2,177 | 2,060 | 2,033 |
| Long-term debt | 5,378 | 5,133 | 5,333 |
| Asbestos-related liabilities | 528 | 577 | 643 |
| Other long-term liabilities | 977 | 1,002 | 973 |
| Share owners' equity | 939 | 363 | 515 |
| Total liabilities and share owners' equity | \$ 9,999 | \$ 9,135 | \$ 9,497 |

See accompanying notes.

OWENS-ILLINOIS, INC.

CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in millions)

| | Nine months ended September 30, | |
|---|------------------------------------|--------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 329 | \$ 296 |
| Loss from discontinued operations | 2 | 6 |
| Non-cash charges | | |
| Depreciation and amortization | 372 | 372 |
| Pension expense | 22 | 22 |
| Restructuring, asset impairment and related charges | 48 | 19 |
| Cash payments | | |
| Pension contributions | (28) | (15) |
| Asbestos-related payments | (49) | (45) |
| Cash paid for restructuring activities | (30) | (20) |
| Change in components of working capital | (601) | (320) |
| Other, net (a) | (26) | (89) |
| Cash provided by continuing operating activities | 39 | 226 |
| Cash utilized in discontinued operating activities | (2) | (6) |
| Total cash provided by operating activities | 37 | 220 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (292) | (310) |
| Acquisitions, net of cash acquired | (37) | (45) |
| Net cash proceeds related to the sale of assets | 14 | 57 |
| Net foreign exchange derivative activity | | 16 |
| Cash utilized in continuing investing activities | (315) | (282) |
| Cash provided by discontinued investing activities | 115 | |
| Total cash utilized in investing activities | (200) | (282) |
| Cash flows from financing activities: | | |
| Changes in borrowings, net | 23 | (31) |
| Issuance of common stock and other | (5) | 5 |
| Distributions to noncontrolling interests | (9) | (10) |
| Payment of finance fees | (23) | (3) |
| Cash utilized in financing activities | (14) | (39) |
| Effect of exchange rate fluctuations on cash | 24 | (4) |
| Decrease in cash | (153) | (105) |
| Cash at beginning of period | 492 | 399 |
| Cash at end of period | \$ 339 | \$ 294 |

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

See accompanying notes.

OWENS-ILLINOIS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Tabular data dollars in millions, except per share amounts

1. Segment Information

The Company has four reportable segments based on its geographic locations: Europe, North America, Latin 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 considers not representative of ongoing operations as well as certain retained corporate costs. The Company's management uses segment operating profit, in combination with net sales and selected cash flow information, to evaluate performance and to allocate resources. Segment operating profit for reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided.

Intercompany sales in Latin America totaled \$34 million and \$97 million for the three and nine months ended September 30, 2017, respectively, and \$36 million and \$129 million for the three and nine months ended September 30, 2016, respectively.

Financial information for the three and nine months ended September 30, 2017 and 2016 regarding the Company's reportable segments is as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------|-------------------------------------|--------|------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net sales: | | | | |
| Europe | \$ 624 | \$ 586 | \$ 1,813 | \$ 1,795 |
| North America | 551 | 578 | 1,651 | 1,709 |
| Latin America | 412 | 365 | 1,123 | 1,022 |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

| | | | | |
|---------------------------|----------|----------|----------|----------|
| Asia Pacific | 188 | 170 | 516 | 487 |
| Reportable segment totals | 1,775 | 1,699 | 5,103 | 5,013 |
| Other | 16 | 13 | 54 | 47 |
| Net sales | \$ 1,791 | \$ 1,712 | \$ 5,157 | \$ 5,060 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|--|--------|------------------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 |
| Segment operating profit: | | | | |
| Europe | \$ 81 | \$ 64 | \$ 220 | \$ 192 |
| North America | 75 | 79 | 252 | 247 |
| Latin America | 84 | 74 | 207 | 194 |
| Asia Pacific | 20 | 20 | 51 | 48 |
| Reportable segment totals | 260 | 237 | 730 | 681 |
| Items excluded from segment operating profit: | | | | |
| Retained corporate costs and other | (25) | (18) | (81) | (75) |
| Restructuring, asset impairment and other | | | (49) | (12) |
| Interest expense, net | (63) | (66) | (204) | (199) |
| Earnings from continuing operations before income taxes | \$ 172 | \$ 153 | \$ 396 | \$ 395 |

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

| | September 30, 2017 | December 31, 2016 | September 30, 2016 |
|---------------------------|--------------------------|-------------------------|--------------------------|
| Total assets: | | | |
| Europe | \$ 3,140 | \$ 2,792 | \$ 2,972 |
| North America | 2,826 | 2,522 | 2,536 |
| Latin America | 2,772 | 2,537 | 2,629 |
| Asia Pacific | 1,046 | 926 | 1,025 |
| Reportable segment totals | 9,784 | 8,777 | 9,162 |
| Other | 215 | 358 | 335 |
| Consolidated totals | \$ 9,999 | \$ 9,135 | \$ 9,497 |

2. Inventories

Major classes of inventory at September 30, 2017, December 31, 2016 and September 30, 2016 are as follows:

| | September 30, 2017 | December 31, 2016 | September 30, 2016 |
|--|--------------------------|-------------------------|--------------------------|
|--|--------------------------|-------------------------|--------------------------|

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

| | | | |
|--------------------|----------|--------|----------|
| Finished goods | \$ 875 | \$ 827 | \$ 892 |
| Raw materials | 129 | 118 | 127 |
| Operating supplies | 42 | 38 | 38 |
| | \$ 1,046 | \$ 983 | \$ 1,057 |

3. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets at September 30, 2017, December 31, 2016 and September 30, 2016 are as follows:

| | September 30, 2017 | December 31, 2016 | September 30, 2016 |
|-------------------|--------------------------|-------------------------|--------------------------|
| Prepaid expenses | \$ 50 | \$ 50 | \$ 61 |
| Value added taxes | 44 | 46 | 42 |
| Other | 160 | 103 | 131 |
| | \$ 254 | \$ 199 | \$ 234 |

4. Derivative Instruments

The Company has certain derivative assets and liabilities which consist of natural gas forwards and foreign exchange option and forward contracts. The Company uses an income approach to 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 several regions, 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. In North America, the majority of its customer contracts contain provisions that pass the price of natural gas to its customers. In certain of these contracts, the customer has the option of fixing the natural gas price component for a specified period of time. To limit the effects of fluctuations in cash flows resulting from these customer contracts, the Company enters into commodity forward contracts related to forecasted natural gas requirements. In Asia Pacific, the Company implemented a hedging program in the first quarter of 2016, which included the execution of commodity forward contracts for certain contracted natural gas requirements. At September 30, 2017 and 2016, the Company had entered into commodity forward contracts covering approximately 9,300,000 MM BTUs and 12,400,000 MM BTUs, respectively.

The Company accounts for the above forward contracts as cash flow hedges at September 30, 2017 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 September 30, 2017, an unrecognized gain of \$6 million at December 31, 2016 and an unrecognized gain of \$2 million at September 30, 2016 related to the commodity forward contracts was included in Accumulated OCI, and will be reclassified into earnings in the period when the commodity forward contracts expire. Any material portion of the change in the fair value of a derivative designated as a cash flow hedge that is deemed to be ineffective is recognized in current earnings. The ineffectiveness related to these natural gas hedges for the three and nine months ended September 30, 2017 and 2016 was not material.

The effect of the commodity forward contracts on the results of operations for the three months ended September 30, 2017 and 2016 is as follows:

| Amount of (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) | |
| 2017 | 2016 | 2017 | 2016 |
| \$ (1) | \$ (1) | \$ — | \$ — |

The effect of the commodity forward contracts on the results of operations for the nine months ended September 30, 2017 and 2016 is as follows:

| Amount of Gain 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) | |
| 2017 | 2016 | 2017 | 2016 |
| \$ 3 | \$ 2 | \$ — | \$ — |

Foreign Exchange Derivative Contracts and 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 foreign 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 foreign exchange agreements on the balance sheet at fair value and changes in the fair value are recognized in current earnings.

At September 30, 2017 and 2016, the Company had outstanding foreign exchange and option agreements denominated in various currencies covering the equivalent of approximately \$320 million and \$580 million, respectively, related primarily to intercompany transactions and loans.

The effect of the foreign exchange derivative contracts on the results of operations for the three months ended September 30, 2017 and 2016 is as follows:

| Location of Gain (Loss) | Amount of Gain (Loss) Recognized in Income on Foreign Exchange Contracts | |
|---|---|------|
| | 2017 | 2016 |
| Recognized in Income on Foreign Exchange Contracts | | |
| Other expense | \$ (2) | \$ 4 |

The effect of the foreign exchange derivative contracts on the results of operations for the nine months ended September 30, 2017 and 2016 is as follows:

| Location of Gain | Amount of Gain Recognized in Income on Foreign Exchange Contracts | |
|---|--|------|
| | 2017 | 2016 |
| Recognized in Income on Foreign Exchange Contracts | | |
| Other expense | \$ 4 | \$ 6 |

Hedges of Multiple Risks

The Company has variable-interest rate borrowings denominated in currencies other than the functional currency of the borrowing subsidiaries. As a result, the Company is exposed to fluctuations in both the underlying variable interest rate and the currency of the borrowing against the subsidiaries' functional currency. The Company uses derivatives to manage these exposures and designates these derivatives as cash flow hedges of both interest rate and foreign exchange risks. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges of both interest rate risk and foreign exchange risk is recorded in Accumulated OCI and is subsequently reclassified into earnings in the period for which the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivative is recognized directly in earnings.

During the second quarter of 2017, one of the Company's Euro-functional subsidiaries entered into a cross-currency interest rate swap to manage its exposure to fluctuations in the variable interest rate and the U.S. dollar-Euro exchange rate arising from a U.S. dollar denominated borrowing. This swap involves exchanging fixed rate Euro interest payments for floating rate U.S. dollar interest receipts both of which will occur at the forward exchange rates in effect upon entering into the instrument. This instrument, which settled in the third quarter of 2017, had a pay fixed notional

amount of €81 million and a receive notional amount of \$90 million.

Interest Rate Swaps Designated as Fair Value Hedges

In the third quarter of 2017, the Company entered into a series of interest rate swap agreements with a total notional amount of €400 million that reach final maturity in 2024. The swaps were executed in order to maintain a capital structure containing appropriate amounts of fixed and floating-rate debt.

The Company's fixed-to-variable interest rate swaps were accounted for as fair value hedges. The relevant terms of the swap agreements match the corresponding terms of the notes and therefore there is no hedge ineffectiveness. The Company recorded the net of the fair market values of the swaps as a long-term liability and short-term asset along with a corresponding net decrease in the carrying value of the hedged debt.

Under the swaps, the Company receives fixed rate interest amounts (equal to the interest on the corresponding hedged note) and pays interest at a six-month Euribor rate (set in arrears) plus a margin spread (see table below). The interest

rate differential on each swap is recognized as an adjustment of interest expense during each six-month period over the term of the agreement.

The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The Company has determined that the majority of the inputs used to value these derivatives fall within Level 2 of the fair value hierarchy.

The following selected information relates to fair value swaps at September 30, 2017:

| | Amount Hedged | Receive Rate | Average Spread |
|-----------------------|------------------|-----------------|-------------------|
| Senior Notes due 2024 | € 400 | 3.125 % | 2.5 % |

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, (c) other accrued liabilities or other liabilities (current) if the instrument has a negative fair value and maturity within one year, and (d) other accrued liabilities or other liabilities if the instrument has a negative fair value and maturity after one year.

The following table shows the amount and classification (as noted above) of the Company's derivatives at September 30, 2017, December 31, 2016 and September 30, 2016:

| | Fair Value | September | December | September |
|---|---------------|-----------|----------|-----------|
| | Balance Sheet | 30, | 31, | 30, |
| | Location | 2017 | 2016 | 2016 |
| Asset derivatives: | | | | |
| Derivatives designated as hedging instruments: | | | | |
| Commodity futures contracts | b | \$ 1 | \$ 6 | \$ 2 |
| Interest rate swaps designated as fair value hedges | a | 2 | | |
| Derivatives not designated as hedging instruments: | | | | |
| Foreign exchange derivative contracts | a | 2 | 9 | 8 |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

| | | | | |
|---|---|------|-------|-------|
| Total asset derivatives | | \$ 5 | \$ 15 | \$ 10 |
| Liability derivatives: | | | | |
| Derivatives designated as hedging instruments: | | | | |
| Commodity futures contracts | c | \$ 1 | \$ — | \$ — |
| Interest rate swaps designated as fair value hedges | d | 5 | | |
| Derivatives not designated as hedging instruments: | | | | |
| Foreign exchange derivative contracts | c | 3 | 5 | 2 |
| Total liability derivatives | | \$ 9 | \$ 5 | \$ 2 |

5. Restructuring Accruals

Selected information related to the restructuring accruals for the three months ended September 30, 2017 and 2016 is as follows:

| | Other Restructuring Actions |
|---|-----------------------------------|
| Balance at July 1, 2017 | \$ 111 |
| Net cash paid, principally severance and related benefits | (14) |
| Other, including foreign exchange translation | 1 |
| Balance at September 30, 2017 | \$ 98 |

| | Asia Pacific Restructuring | Other Restructuring Actions | Total Restructuring |
|---|-------------------------------|-----------------------------------|------------------------|
| Balance at July 1, 2016 | \$ 6 | \$ 28 | \$ 34 |
| Net cash paid, principally severance and related benefits | (1) | (2) | (3) |
| Other, including foreign exchange translation | | (2) | (2) |
| Balance at September 30, 2016 | \$ 5 | \$ 24 | \$ 29 |

Selected information related to the restructuring accruals for the nine months ended September 30, 2017 and 2016 is as follows:

| | Other Restructuring Actions |
|---|-----------------------------------|
| Balance at January 1, 2017 | \$ 85 |
| Charges | 48 |
| Write-down of assets to net realizable value | (9) |
| Net cash paid, principally severance and related benefits | (30) |
| Other, including foreign exchange translation | 4 |
| Balance at September 30, 2017 | \$ 98 |

| | Asia Pacific Restructuring | Other Restructuring Actions | Total Restructuring |
|--|-------------------------------|-----------------------------------|------------------------|
| Balance at January 1, 2016 | \$ 7 | \$ 36 | \$ 43 |
| Charges | 1 | 18 | 19 |
| Write-down of assets to net realizable value | | (7) | (7) |

| | | | |
|---|------|-------|-------|
| Net cash paid, principally severance and related benefits | (2) | (18) | (20) |
| Other, including foreign exchange translation | (1) | (5) | (6) |
| Balance at September 30, 2016 | \$ 5 | \$ 24 | \$ 29 |

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

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

Asia Pacific Restructuring

During the nine months ended September 30, 2016, the Company recorded charges of \$1 million. These charges primarily represented other exit costs as part of the Company's Asia Pacific Restructuring program. The Company recorded total cumulative charges of \$224 million and does not expect to execute any further actions under this program. The Company expects that the majority of the remaining cash expenditures related to the above charges will be paid out by the end of 2018. Beginning in 2017, the Asia Pacific Restructuring program was considered substantially complete and the remaining accrual balance was reclassified into Other Restructuring Actions.

Other Restructuring Actions

During the three and nine months ended September 30, 2017, the Company recorded restructuring, asset impairment and other charges of \$0 million and \$48 million, respectively. For the nine months ended September 30, 2017, these charges primarily consist of employee costs, write-down of assets, and other exit costs in the following regions: Latin America (\$33 million), Europe (\$13 million) and North America (\$2 million). Except for the charges recorded in Europe, the other discrete restructuring charges recorded in 2017 are expected to approximate the total cumulative costs for those actions as no significant additional costs are expected to be incurred. The Company has recorded total cumulative charges of \$54 million related to a plant closure in Europe and does not expect to execute any further significant actions related to this facility. The restructuring charges recorded in 2017 in the Latin American and European regions primarily relate to capacity curtailments and products produced at those facilities have, in large part, been reallocated to others in their respective regions. The Company expects that the majority of the remaining cash expenditures related to the above charges will be paid out by the end of 2018.

During the three and nine months ended September 30, 2016, the Company recorded restructuring, asset impairment and other charges of \$0 and \$18 million, respectively. These charges were primarily related to restructuring in the Latin America region. These charges primarily represented employee costs, write-down of assets, and other exit costs of \$14 million for a plant closure in the first quarter of 2016 in Latin America, \$3 million related to a previous plant closure in North America and \$1 million related to other restructuring actions. The discrete restructuring charges recorded in the first quarter of 2016 are expected to approximate the total cumulative costs for those actions as no significant additional costs are expected to be incurred. The restructuring charges recorded in the first quarter of 2016 in the Latin American region primarily relate to a capacity curtailment. The Company reallocated the products produced at this facility to others in the region. The Company expects that the majority of the remaining cash expenditures related to the above charges will be paid out by the end of 2017.

6. Pension Benefit Plans

The components of the net periodic pension cost for the three months ended September 30, 2017 and 2016 are as follows:

| | U.S. | | Non-U.S. | |
|---------------------------|------|------|----------|------|
| | 2017 | 2016 | 2017 | 2016 |
| Service cost | \$ 4 | \$ 3 | \$ 4 | \$ 4 |
| Interest cost | 20 | 23 | 11 | 12 |
| Expected asset return | (33) | (37) | (18) | (19) |
| Amortization: | | | | |
| Actuarial loss | 14 | 16 | 5 | 5 |
| Net periodic pension cost | \$ 5 | \$ 5 | \$ 2 | \$ 2 |

The components of the net periodic pension cost for the nine months ended September 30, 2017 and 2016 are as follows:

| | U.S. | | Non-U.S. | |
|-----------------------|-------|-------|----------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Service cost | \$ 11 | \$ 11 | \$ 12 | \$ 13 |
| Interest cost | 59 | 72 | 33 | 38 |
| Expected asset return | (98) | (113) | (54) | (61) |

Amortization:

| | | | | |
|---------------------------|-------|-------|------|------|
| Actuarial loss | 44 | 47 | 15 | 15 |
| Net periodic pension cost | \$ 16 | \$ 17 | \$ 6 | \$ 5 |

In March 2016, the Company remeasured the liability related to its hourly plan in the U.S. to reflect certain changes in future benefits. The remeasurement resulted in an increase to its pension liability of approximately \$60 million and has been reflected in other comprehensive income.

7. Income Taxes

The Company performs a quarterly review of the annual effective tax rate and makes changes if necessary based on new information or events. The estimated annual effective tax rate is forecasted quarterly using actual historical information and forward-looking estimates. The estimated annual effective tax rate may fluctuate due to changes in forecasted annual operating income; changes in the forecasted mix of earnings by country; changes to the valuation allowance for deferred tax assets (such changes would be recorded discretely in the quarter in which they occur); changes to actual or forecasted permanent book to tax differences (non-deductible expenses); impacts from future tax settlements with state, federal or foreign tax authorities (such changes would be recorded discretely in the quarter in which they occur); or impacts from tax law changes. To the extent such changes impact deferred tax assets/liabilities, these changes would generally be recorded discretely in the quarter in which they occur. Additionally, the annual effective tax rate differs from the statutory U.S. Federal tax rate of 35% primarily because of valuation allowances in some jurisdictions and varying non-U.S. tax rates, as well as the tax accruals reversed in the second quarter of 2017 due to the resolution of a previous tax matter with a foreign tax authority.

The Company is currently under examination in various tax jurisdictions in which it operates, including Argentina, Bolivia, Brazil, China, Canada, Colombia, the Czech Republic, France, Germany, Indonesia, and Spain. The years under examination range from 2006 through 2015. The Company has received income tax assessments in excess of established reserves. The Company believes that adequate provisions for all income tax uncertainties have been made. However, if income tax assessments are settled against the Company at amounts in excess of established reserves, it could have a material impact to the Company's results of operations, financial position or cash flows.

8. Debt

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

| | September 30, 2017 | December 31, 2016 | September 30, 2016 |
|---|--------------------------|-------------------------|--------------------------|
| Secured Credit Agreement: | | | |
| Revolving Credit Facility: | | | |
| Revolving Loans | \$ 200 | \$ — | \$ — |
| Term Loans: | | | |
| Term Loan A | 1,202 | 1,395 | 1,516 |
| Term Loan A (€279 million) | 308 | 282 | 303 |
| Term Loan B | | | 558 |
| Senior Notes: | | | |
| 6.75%, due 2020 (€500 million) | 586 | 523 | 557 |
| 4.875%, due 2021 (€330 million) | 386 | 345 | 367 |
| 5.00%, due 2022 | 496 | 495 | 495 |
| 5.875%, due 2023 | 684 | 682 | 681 |
| 3.125%, due 2024 (€725 million at September 30, 2017 and €500 million at December 31, 2016) | 840 | 520 | |
| 6.375%, due 2025 | 295 | 294 | 294 |
| 5.375%, due 2025 | 297 | 297 | 296 |
| Senior Debentures: | | | |
| 7.80%, due 2018 | 22 | 250 | 250 |
| Capital Leases | 54 | 57 | 62 |
| Other | 56 | 26 | 30 |
| Total long-term debt | 5,426 | 5,166 | 5,409 |
| Less amounts due within one year | 48 | 33 | 76 |
| Long-term debt | \$ 5,378 | \$ 5,133 | \$ 5,333 |

On April 22, 2015, the Company entered into a Senior Secured Credit Facility, which subsequently has been amended several times with the most recent amendment being entered into on September 28, 2017 (the “Amended Agreement”).

At September 30, 2017, the Amended Agreement includes a \$300 million revolving credit facility, a \$600 million multicurrency revolving credit facility, a \$1,575 million term loan A facility (\$1,202 million net of debt issuance costs), and a €279 million term loan A facility (\$308 million net of debt issuance costs), each of which has a final maturity date of April 22, 2020. At September 30, 2017, the Company had unused credit of \$652 million available under the Amended Agreement. The weighted average interest rate on borrowings outstanding under the Amended Agreement at September 30, 2017 was 2.57%.

The Amended 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 payments, make certain asset sales within guidelines and limits, engage in certain affiliate transactions, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain subordinated debt obligations.

The Amended Agreement also contains one financial covenant, a Total Leverage Ratio that requires the Company not to exceed a ratio calculated by dividing consolidated total debt, less cash and cash equivalents (“Net Indebtedness”), by

consolidated EBITDA, as defined in the Amended Agreement. The Total 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 Total Leverage Ratio to exceed the specified maximum of (i) 4.5x for the fiscal quarter ending September 30, 2017, and (ii) 4.0x for the fourth fiscal quarter ending December 31, 2017 and each fiscal quarter thereafter.

On September 28, 2017, the Company entered into Amendment No. 5 (“Amendment No. 5”) to the Amended Agreement. Amendment No. 5 changes the calculation of the Total Leverage Ratio by excluding from the calculation of

Net Indebtedness ordinary course revolver borrowings (except to the extent such borrowings existed at the prior year end) and non-recourse factoring or securitization debt.

Failure to comply with these covenants and restrictions could result in an event of default under the Amended Agreement. In such an event, the Company would be unable to request borrowings under the revolving facility, and all amounts outstanding under the Amended Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Amended Agreement and the lenders cause all of the outstanding debt obligations under the Amended 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. As of September 30, 2017, the Company was in compliance with all covenants and restrictions in the Amended Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Amended Agreement will not be adversely affected by the covenants and restrictions.

The interest rates on borrowings under the Amended Agreement are, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Amended Agreement, plus an applicable margin. The applicable margin for the term loan A facility and the revolving credit facility is linked to the Company's Total Leverage Ratio and ranges from 1.25% to 1.75% for Eurocurrency Rate loans and from 0.25% to 0.75% for Base Rate loans. In addition, a facility fee is payable on the revolving credit facility commitments ranging from 0.20% to 0.30% per annum linked to the Total Leverage Ratio.

Borrowings under the Amended Agreement are secured by substantially all of the assets, excluding real estate and certain other excluded assets, of certain of the Company's domestic subsidiaries and certain foreign subsidiaries. Borrowings are also secured by a pledge of intercompany debt and equity investments in certain of the Company's domestic subsidiaries and, in the case of foreign borrowings, of stock of certain foreign subsidiaries. All borrowings under the Amended Agreement are guaranteed by certain domestic subsidiaries of the Company.

During August 2015, the Company issued senior notes with a face value of \$700 million that bear interest at 5.875% and are due August 15, 2023 (the "Senior Notes due 2023") and senior notes with a face value of \$300 million that bear interest at 6.375% and are due August 15, 2025 (together with the Senior Notes due 2023, the "2015 Senior Notes"). The 2015 Senior Notes were issued via a private placement and are guaranteed by certain of the Company's domestic subsidiaries. The net proceeds from the 2015 Senior Notes, after deducting the debt discount and debt issuance costs, totaled approximately \$972 million.

During November 2016, the Company issued senior notes with a face value of €500 million that bear interest at 3.125% and are due November 15, 2024 (the "Senior Notes due 2024"). The notes were issued via a private placement and are guaranteed by certain of the Company's domestic subsidiaries. The net proceeds, after deducting debt issuance costs, totaled approximately \$520 million and were used to repay the term loan B facility under the Amended Agreement. In March 2017, the Company expanded its borrowings under the Senior Notes due 2024 by issuing €225 million of additional notes that bear interest at 3.125% and are due November 15, 2024. The notes were issued via a private placement and are guaranteed by certain of the Company's domestic subsidiaries. The net proceeds, after deducting debt issuance costs, totaled approximately \$237 million and were used to repay a portion of the Company's revolving credit facility.

In March 2017, the Company purchased in a tender offer approximately \$228 million aggregate principal amount of its 7.80% Senior Debentures due in 2018. Approximately \$22 million of the Senior Debentures remain outstanding as of September 30, 2017. As part of the tender offer, the Company recorded \$17 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees in the first quarter of 2017.

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

portions of its debt securities in the open market.

15

The Company has a €185 million European accounts receivable securitization program, which extends through March 2019, subject to periodic renewal of backup credit lines.

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

| | September 30, 2017 | December 31, 2016 | September 30, 2016 |
|--|--------------------------|-------------------------|--------------------------|
| Balance (included in short-term loans) | \$ 170 | \$ 152 | \$ 158 |
| Weighted average interest rate | 0.65 % | 0.74 % | 0.67 % |

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

Fair values at September 30, 2017 of the Company's significant fixed rate debt obligations are as follows:

| | Principal Amount | Indicated Market Price | Fair Value |
|---------------------------------|---------------------|------------------------------|---------------|
| Senior Notes: | | | |
| 6.75%, due 2020 (€500 million) | \$ 589 | \$ 118.38 | \$ 697 |
| 4.875%, due 2021 (€330 million) | 389 | 113.85 | 443 |
| 5.00%, due 2022 | 500 | 105.80 | 529 |
| 5.875%, due 2023 | 700 | 110.65 | 775 |
| 3.125%, due 2024 (€725 million) | 854 | 103.38 | 883 |
| 6.375%, due 2025 | 300 | 113.10 | 339 |
| 5.375%, due 2025 | 300 | 106.98 | 321 |
| Senior Debentures: | | | |
| 7.80%, due 2018 | 22 | 103.77 | 23 |

9. Contingencies

Asbestos

The Company is a defendant in numerous lawsuits alleging bodily injury and death as a result of exposure to asbestos. 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 insulation material containing asbestos. The Company sold its insulation business unit at the end of April 1958. The typical asbestos personal injury lawsuit alleges various theories of liability, including negligence, gross negligence and strict liability and seeks compensatory and, in some cases, punitive damages in various amounts (herein referred to as "asbestos claims").

As of September 30, 2017, the Company has determined that it is a named defendant in asbestos lawsuits and claims involving approximately 1,400 plaintiffs and claimants. Based on an analysis of the lawsuits pending as of December

31, 2016, approximately 88% 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 9% of plaintiffs specifically plead damages above the jurisdictional minimum up to, and including, \$15 million or less, and 3% of plaintiffs specifically plead damages greater than \$15 million but less than or equal to \$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 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 type and severity of the plaintiff's asbestos disease, the plaintiff's medical history and exposure to other disease-causing agents, the product identification evidence against the Company and other co-defendants, the defenses available to the Company and other co-defendants, the specific jurisdiction in which the claim is made, and the plaintiff's firm representing the claimant.

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 September 30, 2017, has disposed of asbestos claims of approximately 399,000 plaintiffs and claimants at an average indemnity payment per claim of approximately \$9,500. The Company's asbestos indemnity payments have varied on a per claim basis, and are expected to continue to vary considerably over time. Asbestos-related cash payments for 2016, 2015 and 2014 were \$125 million, \$138 million, and \$148 million, respectively. The Company's cash payments per claim disposed (inclusive of legal costs) were approximately \$71,000, \$95,000, and \$81,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

As discussed above, 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 court orders and legislative acts 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.

Beginning with the initial liability of \$975 million established in 1993, the Company has accrued a total of approximately \$4.9 billion through September 30, 2017, before insurance recoveries, for its asbestos-related liability. The Company's estimates of its liability have 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 continues to monitor trends that may affect its ultimate liability and analyze the developments and variables likely to affect the resolution of pending and future asbestos claims against the Company. The material components of the Company's total accrued liability are determined by the Company in connection with its annual comprehensive legal 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; and (iii) the legal defense costs estimated to be incurred in connection with the claims already asserted and those claims the Company believes will be asserted.

As noted above, the Company conducts a comprehensive legal 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. As part of its annual comprehensive legal review, the Company provides historical claims filing data to a third party with expertise in determining the impact of disease incidence and mortality on future filing trends to develop information to assist the Company in estimating the total number of future claims to be filed. The Company uses this estimate of total future claims, along with an estimation of disposition costs and related legal costs as inputs to develop its best estimate of total probable liability. If the results of the annual comprehensive legal review indicate that the existing amount of the accrued liability is lower (higher) than its reasonably estimable asbestos-related costs, then the Company will record an appropriate charge (credit) to the Company's results of operations to increase (decrease) the accrued liability.

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

- a) settlements will continue to be limited almost exclusively to claimants who were exposed to the Company's asbestos containing insulation prior to its exit from that business in 1958;
- b) claims will continue to be resolved primarily under the Company's administrative claims agreements or on terms comparable to those set forth in those agreements;
- c) the incidence of serious asbestos related disease cases and claiming patterns against the Company for such cases do not change materially;
- d) the Company is substantially able to defend itself successfully at trial and on appeal;
- e) the number and timing of additional co-defendant bankruptcies do not change significantly the assets available to participate in the resolution of cases in which the Company is a defendant; and
- f) co-defendants with substantial resources and assets continue to participate significantly in the resolution of future asbestos lawsuits and claims.

For the years ended December 31, 2016 and 2015, the Company concluded that accruals in the amount of \$692 million and \$817 million, respectively, were required. These amounts have not been discounted for the time value of money. The Company's comprehensive legal reviews resulted in charges of \$0 million, \$16 million and \$46 million for the years ending December 31, 2016, 2015 and 2014, respectively.

The Company believes it is reasonably possible that it will incur a loss for its asbestos-related liabilities in excess of the amount currently recognized, which is \$692 million as of December 31, 2016. The Company estimates that reasonably possible losses could be as high as \$825 million. This estimate of additional reasonably possible loss reflects a legal judgment about the number and cost of potential future claims and legal costs. The Company believes this estimate is consistent with the level of variability it has experienced when comparing actual results to recent near-term projections. However, it is also possible that the ultimate asbestos-related liability could be above this estimate.

The Company expects a significant majority of the total number of claims to be received in the next ten years. This timeframe appropriately reflects the mortality of current and expected claimants in light of the Company's sale of its insulation business unit in 1958.

As noted above, the Company's asbestos-related liability is based on a projection of new claims that will eventually be filed against the Company and the estimated average disposition cost of these claims and related legal costs. Changes in the significant assumptions noted above have the potential to impact these key factors, which are critical to the estimation of the Company's asbestos-related liability significantly.

Other Matters

On July 5, 2016, the Company learned that the Enforcement Division of the Securities and Exchange Commission ("SEC") is conducting an investigation into certain accounting and control matters pertaining to the Company's determination of its asbestos-related liabilities. On May 13, 2016, the Company restated its consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 in order to correct an error related to the Company's method for estimating its future asbestos-related liabilities. The Company is cooperating with the SEC's investigation. At this time, the Company is unable to predict the outcome of this matter or provide meaningful quantification of how the final resolution of this matter may impact its future consolidated financial statements, results of operations, or cash flows.

Other litigation is pending against the Company, in many cases involving ordinary and routine claims incidental to the business of the Company and in others presenting allegations that are non-routine and involve compensatory, punitive or treble damage claims as well as other types of relief. The Company records a liability for such matters when it is

both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. Recorded amounts are reviewed and adjusted to reflect changes in the factors upon which the estimates are based, including additional information, negotiations, settlements and other events.

10. Share Owners' Equity

The activity in share owners' equity for the three months ended September 30, 2017 and 2016 is as follows:

| | Share Owners' Equity of the Company | | | | Accumulated | | Total Share Owners' Equity |
|--|-------------------------------------|--------------------------------|----------------|-------------------|--------------------------|---------------------------|----------------------------|
| | Common Stock | Capital in Excess of Par Value | Treasury Stock | Retained Earnings | Other Comprehensive Loss | Non-controlling Interests | |
| Balance on July 1, 2017 | \$ 2 | \$ 3,088 | \$ (555) | \$ 92 | \$ (1,957) | \$ 109 | \$ 779 |
| Reissuance of common stock (85,290 shares) | | | 2 | | | | 2 |
| Stock compensation | | 5 | | | | | 5 |
| Net earnings | | | | 126 | | 7 | 133 |
| Other comprehensive income | | | | | 19 | 1 | 20 |
| Balance on September 30, 2017 | \$ 2 | \$ 3,093 | \$ (553) | \$ 218 | \$ (1,938) | \$ 117 | \$ 939 |

| | Share Owners' Equity of the Company | | | | Accumulated | | Total Share Owners' Equity |
|---|-------------------------------------|--------------------------------|----------------|-------------------|--------------------------|---------------------------|----------------------------|
| | Common Stock | Capital in Excess of Par Value | Treasury Stock | Retained Earnings | Other Comprehensive Loss | Non-controlling Interests | |
| Balance on July 1, 2016 | \$ 2 | \$ 3,078 | \$ (566) | \$ (133) | \$ (2,033) | \$ 110 | \$ 458 |
| Reissuance of common stock (114,039 shares) | | | 3 | | | | 3 |
| Net earnings | | | | 108 | | 6 | 114 |
| Other comprehensive loss | | | | | (57) | (2) | (59) |
| Acquisitions of noncontrolling interests | | (1) | | | | | (1) |
| Balance on September 30, 2016 | \$ 2 | \$ 3,077 | \$ (563) | \$ (25) | \$ (2,090) | \$ 114 | \$ 515 |

The activity in share owners' equity for the nine months ended September 30, 2017 and 2016 is as follows:

| | Share Owners' Equity of the Company | | | Accumulated | |
|--|-------------------------------------|--------------------------------|----------------|--------------------------|---------------------------|
| | Common Stock | Capital in Excess of Par Value | Treasury Stock | Other Comprehensive Loss | Non-controlling Interests |

| | Common Stock | Excess of Par Value | Treasury Stock | Retained Earnings | Comprehensive Loss | controlling Interests | Total Share Owners' Equity |
|--|-----------------|------------------------|-------------------|----------------------|-----------------------|--------------------------|-------------------------------------|
| Balance on January 1, 2017 | \$ 2 | \$ 3,080 | \$ (560) | (96) | \$ (2,172) | \$ 109 | \$ 363 |
| Reissuance of common stock (286,455 shares) | | | 7 | | | | 7 |
| Stock compensation | | 13 | | | | | 13 |
| Net earnings | | | | 314 | | 15 | 329 |
| Other comprehensive income | | | | | 234 | (7) | 227 |
| Balance on September 30, 2017 | \$ 2 | \$ 3,093 | \$ (553) | \$ 218 | \$ (1,938) | \$ 117 | \$ 939 |

Share Owners' Equity of the Company

| | Common Stock | Capital in Excess of Par Value | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Non-controlling Interests | Total Share Owners' Equity |
|---|--------------|--------------------------------|----------------|-------------------|--------------------------------------|---------------------------|----------------------------|
| Balance on January 1, 2016 | \$ 2 | \$ 3,064 | \$ (573) | \$ (305) | \$ (2,017) | \$ 108 | \$ 279 |
| Issuance of common stock (505,471 shares) | | 5 | | | | | 5 |
| Reissuance of common stock (297,875 shares) | | | 10 | | | | 10 |
| Stock compensation | | 9 | | | | | 9 |
| Net earnings | | | | 280 | | 16 | 296 |
| Other comprehensive loss | | | | | (73) | (10) | (83) |
| Acquisitions of noncontrolling interests | | (1) | | | | | (1) |
| Balance on September 30, 2016 | \$ 2 | \$ 3,077 | \$ (563) | \$ (25) | \$ (2,090) | \$ 114 | \$ 515 |

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

| | Shares Outstanding (in thousands) | | |
|---|-----------------------------------|-------------------|--------------------|
| | September 30, 2017 | December 31, 2016 | September 30, 2016 |
| Shares of common stock issued (including treasury shares) | 185,722 | 185,355 | 185,418 |
| Treasury shares | 22,731 | 23,017 | 23,221 |

11. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the three months ended September 30, 2017 and 2016 is as follows:

Total

| | Net Effect of Exchange Rate Fluctuations | Change in Certain Derivative Instruments | Employee Benefit Plans | Accumulated Other Comprehensive Loss |
|---|--|--|---------------------------|---|
| Balance on July 1, 2017 | \$ (578) | \$ (14) | \$ (1,365) | \$ (1,957) |
| Change before reclassifications | 9 | | (2) | 7 |
| Amounts reclassified from accumulated other comprehensive income | | | (a) 19 | (b) 19 |
| Translation effect | | | (7) | (7) |
| Other comprehensive income attributable to the Company | 9 | — | 10 | 19 |
| Balance on September 30, 2017 | \$ (569) | \$ (14) | \$ (1,355) | \$ (1,938) |

| | Net Effect of Exchange Rate Fluctuations | Change in Certain Derivative Instruments | Employee Benefit Plans | Total Accumulated Other Comprehensive Loss |
|---|--|--|---------------------------|--|
| Balance on July 1, 2016 | \$ (574) | \$ (11) | \$ (1,448) | \$ (2,033) |
| Change before reclassifications | (77) | | | (77) |
| Amounts reclassified from accumulated other comprehensive income | | (1) | (a) 26 | (b) 25 |
| Translation effect | | | (5) | (5) |
| Other comprehensive income (loss) attributable to the Company | (77) | (1) | 21 | (57) |
| Balance on September 30, 2016 | \$ (651) | \$ (12) | \$ (1,427) | \$ (2,090) |

- (a) Amount is included in Cost of goods sold on the Condensed Consolidated Results of Operations (see Note 4 for additional information).
- (b) Amount is included in the computation of net periodic pension cost (see Note 6 for additional information) and net postretirement benefit cost.

The activity in accumulated other comprehensive loss for the nine months ended September 30, 2017 and 2016 is as follows:

| | Net Effect of Exchange Rate Fluctuations | Change in Certain Derivative Instruments | Employee Benefit Plans | Total Accumulated Other Comprehensive Loss |
|---|--|--|---------------------------|--|
| Balance on January 1, 2017 | \$ (788) | \$ (4) | \$ (1,380) | \$ (2,172) |
| Change before reclassifications | 219 | | (12) | 207 |
| Amounts reclassified from accumulated other comprehensive income | | (10) | (a) 58 | (b) 48 |
| Translation effect | | | (21) | (21) |
| Other comprehensive income (loss) attributable to the Company | 219 | (10) | 25 | 234 |
| Balance on September 30, 2017 | \$ (569) | \$ (14) | \$ (1,355) | \$ (1,938) |

| | Net Effect of Exchange Rate Fluctuations | Change in Certain Derivative Instruments | Employee Benefit Plans | Total Accumulated Other Comprehensive Loss |
|---|--|--|---------------------------|--|
| Balance on January 1, 2016 | \$ (568) | \$ (17) | \$ (1,432) | \$ (2,017) |
| Change before reclassifications | (83) | | | (83) |
| Amounts reclassified from accumulated other comprehensive income | | 4 | (2) | 2 |
| Translation effect | | | 6 | 6 |
| Tax effect | | 1 | 1 | 2 |
| Other comprehensive income (loss) attributable to the Company | (83) | 5 | 5 | (73) |
| Balance on September 30, 2016 | \$ (651) | \$ (12) | \$ (1,427) | \$ (2,090) |

- (a) Amount is included in Cost of goods sold on the Condensed Consolidated Results of Operations (see Note 4 for additional information).
- (b) Amount is included in the computation of net periodic pension cost (see Note 6 for additional information) and net postretirement benefit cost.

12. Other Expense (Income), net

Other expense (income), net for the three and nine months ended September 30, 2017 and 2016 included the following:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|--|--------|------------------------------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Restructuring, asset impairment and other charges | \$ | \$ | \$ 49 | \$ 19 |
| Gain on sale of land in China | | | | (7) |
| Foreign currency exchange loss | 3 | 2 | 3 | 6 |
| Intangible amortization expense | 11 | 10 | 31 | 30 |
| Royalty income | (4) | (4) | (11) | (9) |
| Other income | (5) | (13) | (11) | (15) |
| | \$ 5 | \$ (5) | \$ 61 | \$ 24 |

13. Earnings Per Share

The following tables set forth the computation of basic and diluted earnings per share:

| | Three months ended September 30, | |
|---|-------------------------------------|---------|
| | 2017 | 2016 |
| Numerator: | | |
| Net earnings attributable to the Company | \$ 126 | \$ 108 |
| Denominator (in thousands): | | |
| Denominator for basic earnings per share-weighted average shares outstanding | 162,866 | 162,080 |
| Effect of dilutive securities: | | |
| Stock options and other | 2,127 | 1,124 |
| Denominator for diluted earnings per share-adjusted weighted average shares outstanding | 164,993 | 163,204 |
| Basic earnings per share: | | |
| Earnings from continuing operations | \$ 0.78 | \$ 0.68 |
| Loss from discontinued operations | (0.01) | (0.02) |
| Net earnings | \$ 0.77 | \$ 0.66 |
| Diluted earnings per share: | | |
| Earnings from continuing operations | \$ 0.77 | \$ 0.68 |
| Loss from discontinued operations | (0.01) | (0.02) |
| Net earnings | \$ 0.76 | \$ 0.66 |

Options to purchase 1,168,671 and 2,858,371 weighted average shares of common stock which were outstanding during the three months ended September 30, 2017 and 2016, 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.

| | Nine months ended September 30, | |
|---|------------------------------------|---------|
| | 2017 | 2016 |
| Numerator: | | |
| Net earnings attributable to the Company | \$ 314 | \$ 280 |
| Denominator (in thousands): | | |
| Denominator for basic earnings per share-weighted average shares outstanding | 162,658 | 161,744 |
| Effect of dilutive securities: | | |
| Stock options and other | 1,782 | 863 |
| Denominator for diluted earnings per share-adjusted weighted average shares outstanding | 164,440 | 162,607 |
| Basic earnings per share: | | |
| Earnings from continuing operations | \$ 1.94 | \$ 1.76 |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

| | | |
|-------------------------------------|---------|---------|
| Loss from discontinued operations | (0.01) | (0.04) |
| Net earnings | \$ 1.93 | \$ 1.72 |
| Diluted earnings per share: | | |
| Earnings from continuing operations | \$ 1.92 | \$ 1.75 |
| Loss from discontinued operations | (0.01) | (0.04) |
| Net earnings | \$ 1.91 | \$ 1.71 |

Options to purchase 1,664,845 and 2,922,833 weighted average shares of common stock which were outstanding during the nine months ended September 30, 2017 and 2016, 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.

14. Supplemental Cash Flow Information

Financial information regarding the Company's supplemental cash flow information is as follows:

| | Nine months ended September 30, | |
|--|---------------------------------------|--------|
| | 2017 | 2016 |
| Interest paid in cash | \$ 209 | \$ 214 |
| Income taxes paid in cash (all non-U.S.) | 120 | 93 |

Cash interest for the nine months ended September 30, 2017 includes \$16 million of note repurchase premiums related to debt that was repaid prior to its maturity.

The Company uses various factoring programs to sell certain receivables to financial institutions as part of managing its cash flows. At September 30, 2017 and September 30, 2016, the amount of receivables sold by the Company was \$145 million and \$240 million, respectively. Any continuing involvement with the sold receivables is immaterial.

15. Discontinued Operations

On April 4, 2016, the annulment committee formed by the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") ruled that OI European Group B.V. ("OIEG"), a subsidiary of the Company, is free to pursue the enforcement of a prior arbitration award (the "Award") against Venezuela. As of September 30, 2017, that Award amounts to more than \$500 million, including reimbursement of expenses and accrued interest. Venezuela's application to annul the Award was heard by an ad hoc committee of the ICSID in September 2017, but no decision has been rendered yet.

On July 31, 2017, OIEG sold its right, title and interest in amounts due under the Award to an Ireland-domiciled investment fund. Under the terms of the sale, OIEG received a payment, in cash, at closing equal to \$115 million (the "Cash Payment"). OIEG may also receive additional payments in the future ("Deferred Amounts") calculated based on the total compensation that is received from Venezuela as a result of collection efforts or as settlement of the Award with Venezuela. In the event that the Award is partially or completely annulled by the ICSID ad hoc annulment committee, OIEG may be required to repay to the purchaser up to the entire amount of the Cash Payment based on a formula tied to the amount of the Award (if any) that is annulled. In addition, OIEG's right to receive any Deferred Amounts is subject to the limitations described below.

OIEG's interest in any amounts received in the future from Venezuela in respect of the Award is limited to a percentage of such recovery after taking into account reimbursement of the Cash Payment to the purchaser and reimbursement of legal fees and expenses incurred by the Company and the purchaser. OIEG's percentage of such recovery will also be reduced over time. Because the Award has yet to be satisfied, the annulment proceeding is pending, and the ability to successfully enforce the Award in countries that are party to the ICSID Convention is

subject to significant challenges, the Company is unable to reasonably predict the amount of recoveries from the Award, if any, to which the Company may be entitled in the future. Any future amounts that the Company may receive from the Award are highly speculative and the timing of any such future payments, if any, is highly uncertain. As such, there can be no assurance that the Company will receive any future payments under the Award beyond the Cash Payment. Except as noted above in connection with the annulment proceeding that is pending before the ICSID ad hoc committee, the Cash Payment is not subject to any forfeiture or future adjustment.

A separate arbitration involving other subsidiaries of the Company is pending before ICSID to obtain compensation primarily for third-party minority shareholders' lost interests in the two expropriated plants.

As of September 30, 2017, the Company deferred the gain contingency on the sale of its rights in amounts due under the Award pending the ad hoc committee of the ICSID rendering its decision regarding Venezuela's application to annul the Award. The loss from discontinued operations of \$2 million and \$6 million for the nine months ended September 30, 2017 and September 30, 2016, respectively, relates to ongoing costs for the Venezuelan expropriation.

16. New Accounting Pronouncement

Revenue from Contracts with Customers - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "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. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers", which delayed by one year the effective date of the new revenue recognition standard, which will be effective for the Company on January 1, 2018. The Company has started an implementation process, including a review of customer contracts, to evaluate the effect this standard will have on its consolidated financial statements and related disclosures. At this time, the Company does not expect that the implementation of this standard in 2018 will have a significant impact on the timing in which it recognizes revenue. While the Company continues to assess the potential impacts of the new standard, the Company does not currently expect the adoption of the new standard to have a material impact on consolidated net income or the consolidated balance sheet. The standard requires new substantial disclosures and the Company continues to evaluate these requirements. The Company plans to select the modified retrospective transition method upon adoption effective January 1, 2018.

Leases - In February 2016, the FASB issued ASU No. 2016-02, "Leases". Under this guidance, lessees will be required to recognize on the balance sheet a lease liability and a right-of-use asset for all leases, with the exception of short-term leases. The lease liability represents the lessee's obligation to make lease payments arising from a lease, and will be measured as the present value of the lease payments. The right-of-use asset represents the lessee's right to use a specified asset for the lease term, and will be measured at the lease liability amount, adjusted for lease prepayment, lease incentives received and the lessee's initial direct costs. The standard also requires a lessee to recognize a single lease cost allocated over the lease term, generally on a straight-line basis. The new guidance is effective for the Company on January 1, 2019. ASU No. 2016-02 is required to be applied using the modified retrospective approach for all leases existing as of the effective date and provides for certain practical expedients. Early adoption is permitted. The Company is currently evaluating the effects that the adoption of ASU No. 2016-02 will have on the Company's consolidated financial statements, and anticipates the new guidance will significantly impact its consolidated financial statements as the Company has a significant number of leases. As further described in Note 16 in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, the Company had minimum lease commitments under non-cancellable operating leases totaling \$205 million as of December 31, 2016.

Compensation – Retirement Benefits - In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" which requires the service cost component to be presented with other employee compensation costs in operating income within the income statement while the other components will be reported separately outside of operations. Application of the standard is required for annual periods beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company's condensed consolidated financial statements.

Derivatives and Hedging – In August 2017, the FASB issued ASU No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities" which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. Application of the standard is required for annual periods beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact on the Company's condensed consolidated financial statements.

17. Financial Information for Subsidiary Guarantors and Non-Guarantors

The following presents condensed consolidating financial information for the Company, segregating: (1) Owens-Illinois, Inc., the issuer of senior debentures (the “Parent”); (2) the two subsidiaries which have guaranteed the senior debentures on a subordinated basis (the “Guarantor Subsidiaries”); and (3) all other subsidiaries (the “Non-Guarantor Subsidiaries”). The Guarantor Subsidiaries are 100% owned direct and indirect subsidiaries of the Company and their guarantees are full, unconditional and joint and several. They have no operations and function only as intermediate holding companies.

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

| Balance Sheet | September 30, 2017 | | | | Consolidated |
|---|--------------------|---------------------------|-------------------------------|-------------------|-----------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ — | \$ — | \$ 339 | \$ — | \$ 339 |
| Trade receivables, net | | | 1,028 | | 1,028 |
| Inventories | | | 1,046 | | 1,046 |
| Prepaid expenses and other current assets | | | 254 | | 254 |
| Total current assets | — | — | 2,667 | — | 2,667 |
| Investments in and advances to subsidiaries | 1,488 | 1,465 | | (2,953) | — |
| Property, plant and equipment, net | | | 3,036 | | 3,036 |
| Goodwill | | | 2,621 | | 2,621 |
| Intangibles, net | | | 473 | | 473 |
| Other assets | | | 1,202 | | 1,202 |
| Total assets | \$ 1,488 | \$ 1,465 | \$ 9,999 | \$ (2,953) | \$ 9,999 |
| Current liabilities : | | | | | |
| Short-term loans and long-term debt due within one year | \$ 22 | \$ — | \$ 243 | \$ (22) | \$ 243 |
| Current portion of asbestos liability | 115 | | | | 115 |
| Accounts payable | | | 1,087 | | 1,087 |
| Other liabilities | 1 | | 617 | (1) | 617 |
| Other liabilities - discontinued operations | | | 115 | | 115 |
| Total current liabilities | 138 | — | 2,062 | (23) | 2,177 |
| Long-term debt | | | 5,378 | | 5,378 |
| Asbestos-related liabilities | 528 | | | | 528 |
| Other long-term liabilities | | | 977 | | 977 |
| Share owners' equity | 822 | 1,465 | 1,465 | (2,930) | 822 |
| Noncontrolling interests | | | 117 | | 117 |
| Total liabilities and share owners' equity | \$ 1,488 | \$ 1,465 | \$ 9,999 | \$ (2,953) | \$ 9,999 |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

| Balance Sheet | December 31, 2016 | | | Eliminations | Consolidated |
|---|-------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ — | \$ — | \$ 492 | \$ — | \$ 492 |
| Trade receivables, net | | | 580 | | 580 |
| Inventories | | | 983 | | 983 |
| Prepaid expenses and other current assets | | | 199 | | 199 |
| Total current assets | — | — | 2,254 | — | 2,254 |
| Investments in and advances to subsidiaries | 1,198 | 946 | | (2,144) | — |
| Property, plant and equipment, net | | | 2,880 | | 2,880 |
| Goodwill | | | 2,462 | | 2,462 |
| Intangibles, net | | | 464 | | 464 |
| Other assets | | | 1,075 | | 1,075 |
| Total assets | \$ 1,198 | \$ 946 | \$ 9,135 | \$ (2,144) | \$ 9,135 |
| Current liabilities : | | | | | |
| Short-term loans and long-term debt due within one year | \$ — | \$ — | \$ 195 | \$ — | \$ 195 |
| Current portion of asbestos liability | 115 | | | | 115 |
| Accounts payable | | | 1,135 | | 1,135 |
| Other liabilities | 2 | | 615 | (2) | 615 |
| Total current liabilities | 117 | — | 1,945 | (2) | 2,060 |
| Long-term debt | 250 | | 5,133 | (250) | 5,133 |
| Asbestos-related liabilities | 577 | | | | 577 |
| Other long-term liabilities | | | 1,002 | | 1,002 |
| Share owners' equity | 254 | 946 | 946 | (1,892) | 254 |
| Noncontrolling interests | | | 109 | | 109 |
| Total liabilities and share owners' equity | \$ 1,198 | \$ 946 | \$ 9,135 | \$ (2,144) | \$ 9,135 |

| | September 30, 2016 | | | | |
|--|--------------------|---------------------------|-----------------------------------|--------------|--------------|
| Balance Sheet | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ — | \$ — | \$ 294 | \$ — | \$ 294 |
| Trade receivables, net | | | 857 | | 857 |
| Inventories | | | 1,057 | | 1,057 |
| Prepaid expenses and other current assets | | | 234 | | 234 |
| Total current assets | — | — | 2,442 | — | 2,442 |
| Investments in and advances to subsidiaries | 1,431 | 1,174 | | (2,605) | — |
| Property, plant and equipment, net | | | 2,917 | | 2,917 |
| Goodwill | | | 2,534 | | 2,534 |
| Intangibles, net | | | 490 | | 490 |
| Other assets | | | 1,114 | | 1,114 |
| Total assets | \$ 1,431 | \$ 1,174 | \$ 9,497 | \$ (2,605) | \$ 9,497 |
| Current liabilities : | | | | | |
| Short-term loans and long-term debt due within one year | \$ — | \$ — | \$ 262 | \$ — | \$ 262 |
| Current portion of asbestos liability | 130 | | | | 130 |
| Accounts payable | | | 1,059 | | 1,059 |
| Other liabilities | 7 | | 582 | (7) | 582 |
| Total current liabilities | 137 | — | 1,903 | (7) | 2,033 |
| Long-term debt | 250 | | 5,333 | (250) | 5,333 |
| Asbestos-related liabilities | 643 | | | | 643 |
| Other long-term liabilities | | | 973 | | 973 |
| Share owners' equity | 401 | 1,174 | 1,174 | (2,348) | 401 |
| Noncontrolling interests | | | 114 | | 114 |
| Total liabilities and share owners' equity | \$ 1,431 | \$ 1,174 | \$ 9,497 | \$ (2,605) | \$ 9,497 |

| Results of Operations | Three months ended September 30, 2017 | | | | |
|---|---------------------------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | \$ — | \$ — | \$ 1,791 | \$ — | \$ 1,791 |
| Cost of goods sold | | | (1,438) | | (1,438) |
| Gross profit | — | — | 353 | — | 353 |
| Selling and administrative expense | | | (120) | | (120) |
| Research, development and engineering expense | | | (15) | | (15) |
| Net intercompany interest | | | | | — |
| Interest expense, net | | | (63) | | (63) |
| Equity earnings from subsidiaries | 126 | 126 | | (252) | — |
| Other equity earnings | | | 22 | | 22 |
| Other expense, net | | | (5) | | (5) |
| Earnings before income taxes | 126 | 126 | 172 | (252) | 172 |
| Provision for income taxes | | | (37) | | (37) |
| Earnings from continuing operations | 126 | 126 | 135 | (252) | 135 |
| Loss from discontinued operations | | | (2) | | (2) |
| Net earnings | 126 | 126 | 133 | (252) | 133 |
| Net (earnings) attributable to noncontrolling interests | | | (7) | | (7) |
| Net earnings attributable to the Company | \$ 126 | \$ 126 | \$ 126 | \$ (252) | \$ 126 |

| Comprehensive Income | Three months ended September 30, 2017 | | | | |
|---|---------------------------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Net earnings | \$ 126 | \$ 126 | \$ 133 | \$ (252) | \$ 133 |
| Other comprehensive income, net | 12 | 12 | 20 | (24) | 20 |
| Total comprehensive income | 138 | 138 | 153 | (276) | 153 |
| Comprehensive income attributable to noncontrolling interests | | | (8) | | (8) |
| Comprehensive income attributable to the Company | \$ 138 | \$ 138 | \$ 145 | \$ (276) | \$ 145 |

| | Three months ended September 30, 2016 | | | | |
|---|---------------------------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Results of Operations | | | | | |
| Net sales | \$ — | \$ — | \$ 1,712 | \$ — | \$ 1,712 |
| Cost of goods sold | | | (1,376) | | (1,376) |
| Gross profit | — | — | 336 | — | 336 |
| Selling and administrative expense | | | (121) | | (121) |
| Research, development and engineering expense | | | (16) | | (16) |
| Net intercompany interest | 5 | | (5) | | — |
| Interest expense, net | (5) | | (61) | | (66) |
| Equity earnings from subsidiaries | 108 | 108 | | (216) | — |
| Other equity earnings | | | 15 | | 15 |
| Other expense, net | | | 5 | | 5 |
| Earnings before income taxes | 108 | 108 | 153 | (216) | 153 |
| Provision for income taxes | | | (36) | | (36) |
| Earnings from continuing operations | 108 | 108 | 117 | (216) | 117 |
| Loss from discontinued operations | | | (3) | | (3) |
| Net earnings | 108 | 108 | 114 | (216) | 114 |
| Net (earnings) attributable to noncontrolling interests | | | (6) | | (6) |
| Net earnings attributable to the Company | \$ 108 | \$ 108 | \$ 108 | \$ (216) | \$ 108 |

| | Three months ended September 30, 2016 | | | | |
|---|---------------------------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Comprehensive Income | | | | | |
| Net earnings | \$ 108 | \$ 108 | \$ 114 | \$ (216) | \$ 114 |
| Other comprehensive loss, net | (63) | (63) | (59) | 126 | (59) |
| Total comprehensive income | 45 | 45 | 55 | (90) | 55 |
| Comprehensive income attributable to noncontrolling interests | | | (4) | | (4) |
| Comprehensive income attributable to the Company | \$ 45 | \$ 45 | \$ 51 | \$ (90) | \$ 51 |

| Results of Operations | Nine months ended September 30, 2017 | | | | |
|---|--------------------------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Net sales | \$ — | \$ — | \$ 5,157 | \$ — | \$ 5,157 |
| Cost of goods sold | | | (4,143) | | (4,143) |
| Gross profit | — | — | 1,014 | — | 1,014 |
| Selling and administrative expense | | | (362) | | (362) |
| Research, development and engineering expense | | | (46) | | (46) |
| Net intercompany interest | 21 | | (21) | | — |
| Interest expense, net | (21) | | (183) | | (204) |
| Equity earnings from subsidiaries | 314 | 314 | | (628) | — |
| Other equity earnings | | | 55 | | 55 |
| Other expense, net | | | (61) | | (61) |
| Earnings before income taxes | 314 | 314 | 396 | (628) | 396 |
| Provision for income taxes | | | (65) | | (65) |
| Earnings from continuing operations | 314 | 314 | 331 | (628) | 331 |
| Loss from discontinued operations | | | (2) | | (2) |
| Net earnings | 314 | 314 | 329 | (628) | 329 |
| Net (earnings) attributable to noncontrolling interests | | | (15) | | (15) |
| Net earnings attributable to the Company | \$ 314 | \$ 314 | \$ 314 | \$ (628) | \$ 314 |

| Comprehensive Income | Nine months ended September 30, 2017 | | | | |
|---|--------------------------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Net earnings | \$ 314 | \$ 314 | \$ 329 | \$ (628) | \$ 329 |
| Other comprehensive income, net | 219 | 219 | 227 | (438) | 227 |
| Total comprehensive income | 533 | 533 | 556 | (1,066) | 556 |
| Comprehensive income attributable to noncontrolling interests | | | (8) | | (8) |
| Comprehensive income attributable to the Company | \$ 533 | \$ 533 | \$ 548 | \$ (1,066) | \$ 548 |

Edgar Filing: OWENS ILLINOIS INC /DE/ - Form 10-Q

| | Nine months ended September 30, 2016 | | | | |
|---|--------------------------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Results of Operations | | | | | |
| Net sales | \$ — | \$ — | \$ 5,060 | \$ — | \$ 5,060 |
| Cost of goods sold | | | (4,063) | | (4,063) |
| Gross profit | — | — | 997 | — | 997 |
| Selling and administrative expense | | | (375) | | (375) |
| Research, development and engineering expense | | | (48) | | (48) |
| Net intercompany interest | 15 | | (15) | | — |
| Interest expense, net | (15) | | (184) | | (199) |
| Equity earnings from subsidiaries | 280 | 280 | | (560) | — |
| Other equity earnings | | | 44 | | 44 |
| Other expense, net | | | (24) | | (24) |
| Earnings before income taxes | 280 | 280 | 395 | (560) | 395 |
| Provision for income taxes | | | (93) | | (93) |
| Earnings from continuing operations | 280 | 280 | 302 | (560) | 302 |
| Loss from discontinued operations | | | (6) | | (6) |
| Net earnings | 280 | 280 | 296 | (560) | 296 |
| Net (earnings) attributable to noncontrolling interests | | | (16) | | (16) |
| Net earnings attributable to the Company | \$ 280 | \$ 280 | \$ 280 | \$ (560) | \$ 280 |

| | Nine months ended September 30, 2016 | | | | |
|---|--------------------------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Comprehensive Income | | | | | |
| Net earnings | \$ 280 | \$ 280 | \$ 296 | \$ (560) | \$ 296 |
| Other comprehensive loss, net | (89) | (89) | (83) | 178 | (83) |
| Total comprehensive income | 191 | 191 | 213 | (382) | 213 |
| Comprehensive income attributable to noncontrolling interests | | | (6) | | (6) |
| Comprehensive income attributable to the Company | \$ 191 | \$ 191 | \$ 207 | \$ (382) | \$ 207 |

| Cash Flows | Nine months ended September 30, 2017 | | | | |
|---|--------------------------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Cash provided by (utilized in) operating activities | \$ (50) | \$ — | 87 | \$ — | \$ 37 |
| Cash utilized in investing activities | | | (200) | | (200) |
| Cash provided by (utilized in) financing activities | 50 | | (64) | | (14) |
| Effect of exchange rate change on cash | | | 24 | | 24 |
| Net change in cash | — | — | (153) | — | (153) |
| Cash at beginning of period | | | 492 | | 492 |
| Cash at end of period | \$ — | \$ — | \$ 339 | \$ — | \$ 339 |

| Cash Flows | Nine months ended September 30, 2016 | | | | |
|--|--------------------------------------|---------------------------|-----------------------------------|--------------|--------------|
| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Consolidated |
| Cash utilized in operating activities | \$ (45) | \$ — | \$ 265 | \$ — | \$ 220 |
| Cash utilized in investing activities | | | (282) | | (282) |
| Cash provided by financing activities | 45 | | (84) | | (39) |
| Effect of exchange rate change on cash | | | (4) | | (4) |
| Net change in cash | — | — | (105) | — | (105) |
| Cash at beginning of period | | | 399 | | 399 |
| Cash at end of period | \$ — | \$ — | \$ 294 | \$ — | \$ 294 |

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

The Company's measure of profit for its reportable segments is segment operating profit, which consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations as well as certain retained corporate costs. The segment data presented below is prepared in accordance with general accounting principles for segment reporting. The lines titled "reportable segment totals" in both net sales and segment operating profit, however, are non-GAAP measures 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 and believes this information allows the board of directors, management, investors and analysts to better understand the Company's financial performance. The Company's management uses segment operating profit, in combination with net sales and selected cash flow information, to evaluate performance and to allocate resources.

Financial information for the three and nine months ended September 30, 2017 and 2016 regarding the Company's reportable segments is as follows (dollars in millions):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net Sales: | | | | |
| Europe | \$ 624 | \$ 586 | \$ 1,813 | \$ 1,795 |
| North America | 551 | 578 | 1,651 | 1,709 |
| Latin America | 412 | 365 | 1,123 | 1,022 |
| Asia Pacific | 188 | 170 | 516 | 487 |
| Reportable segment totals | 1,775 | 1,699 | 5,103 | 5,013 |
| Other | 16 | 13 | 54 | 47 |
| Net Sales | \$ 1,791 | \$ 1,712 | \$ 5,157 | \$ 5,060 |

| | Three months ended | | Nine months ended | |
|---|--------------------|--------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Segment operating profit: | | | | |
| Europe | \$ 81 | \$ 64 | \$ 220 | \$ 192 |
| North America | 75 | 79 | 252 | 247 |
| Latin America | 84 | 74 | 207 | 194 |
| Asia Pacific | 20 | 20 | 51 | 48 |
| Reportable segment totals | 260 | 237 | 730 | 681 |
| Items excluded from segment operating profit: | | | | |
| Retained corporate costs and other | (25) | (18) | (81) | (75) |
| Restructuring, asset impairment and other charges | — | — | (49) | (12) |
| Interest expense, net | (63) | (66) | (204) | (199) |
| Earnings from continuing operations before income taxes | 172 | 153 | 396 | 395 |
| Provision for income taxes | (37) | (36) | (65) | (93) |
| Earnings from continuing operations | 135 | 117 | 331 | 302 |
| Loss from discontinued operations | (2) | (3) | (2) | (6) |
| Net earnings | 133 | 114 | 329 | 296 |
| Net (earnings) attributable to noncontrolling interests | (7) | (6) | (15) | (16) |
| Net earnings attributable to the Company | \$ 126 | \$ 108 | \$ 314 | \$ 280 |
| Net earnings from continuing operations attributable to the Company | \$ 128 | \$ 111 | \$ 316 | \$ 286 |

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

Executive Overview — Quarters ended September 30, 2017 and 2016

Third Quarter 2017 Highlights

- Net sales in the third quarter of 2017 were up nearly 5% compared to the prior year quarter, primarily due to the favorable effect of changes in foreign currency and higher prices.
- Earnings from continuing operations before income taxes were up 12% in the third quarter of 2017 compared to the prior year quarter, driven by higher segment operating profit in the European and Latin American regions.
- Received \$115 million from selling the Company's right, title and interest in amounts due under a prior arbitration award against Venezuela.

Net sales for the third quarter of 2017 were \$79 million higher than the third quarter of the prior year primarily due to the favorable effect of changes in foreign currency exchange rates and higher prices.

Earnings from continuing operations before income taxes were \$19 million higher in the third quarter of 2017 than the prior year quarter, primarily due to higher segment operating profit. Segment operating profit for reportable segments for the third quarter of 2017 was \$23 million higher than the third quarter of the prior year. The increase was largely attributable to higher selling prices and the favorable effect of changes in foreign currency. All regions other than North America posted flat or higher segment operating profit in the third quarter of 2017 compared to the same period in the prior year.

Net interest expense for the third quarter of 2017 decreased \$3 million compared to the third quarter of 2016. The decrease was primarily due to deleveraging and refinancing actions taken since the third quarter of 2016.

For the third quarter of 2017, the Company recorded earnings from continuing operations attributable to the Company of \$128 million, or \$0.77 per share (diluted), compared to \$111 million, or \$0.68 per share (diluted), in the third quarter of 2016.

Results of Operations — Third Quarter of 2017 compared with Third Quarter of 2016

Net Sales

The Company's net sales in the third quarter of 2017 were \$1,791 million compared with \$1,712 million for the third quarter of 2016, an increase of \$79 million, or approximately 5%. Favorable foreign currency exchange rates, primarily due to a stronger Euro and Mexican peso, increased sales by \$53 million in the third quarter of 2017 compared to the prior year quarter. Higher selling prices also increased net sales by \$24 million in the quarter. Total glass container shipments, in tonnes, were up slightly in the third quarter of 2017 compared to the prior year quarter and were largely driven by the Latin American and Asia Pacific regions, partially offset by lower shipments in North America. Slightly higher shipments in the third quarter of 2017 were offset by a negative sales mix, resulting in \$1 million of lower net sales.

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

| | | |
|--|-------|----------|
| Reportable segment net sales - 2016 | | \$ 1,699 |
| Price | \$ 24 | |
| Sales volume and mix | (1) | |
| Effects of changing foreign currency rates | 53 | |
| Total effect on reportable segment net sales | | 76 |
| Reportable segment net sales - 2017 | | \$ 1,775 |

Europe: Net sales in Europe in the third quarter of 2017 were \$624 million compared with \$586 million for the third quarter of 2016, an increase of \$38 million, or 6%. Favorable foreign currency exchange rates impacted the region by approximately \$33 million in the third quarter of 2017 as the Euro strengthened in relation to the U.S. dollar. Glass container shipments in the third quarter of 2017 were flat compared to the third quarter of 2016 with strong shipments to spirits and wine customers offset by lower shipments to food and beer customers. Accordingly, a favorable sales mix resulted in \$5 million of higher sales. Selling prices in Europe were comparable in the third quarter of 2017 to the same period in the prior year.

North America: Net sales in North America in the third quarter of 2017 were \$551 million compared with \$578 million for the third quarter of 2016, a decrease of \$27 million, or 5%. Total glass container shipments in the region were down 5% in the third quarter of 2017 compared to the third quarter of 2016, driven primarily by lower sales to beer customers and unfavorably impacted by weather-related events in the latter part of the quarter. These lower shipments and an unfavorable sales mix resulted in \$35 million of lower sales in the third quarter of 2017. The favorable effects of foreign currency exchange rate changes increased net sales \$1 million in the third quarter of 2017 compared to 2016. Slightly higher selling prices increased net sales by \$7 million in the third quarter of 2017.

Latin America: Net sales in Latin America in the third quarter of 2017 were \$412 million compared with \$365 million for the third quarter of 2016, an increase of \$47 million, or 13%. Strong shipments to beer and spirits customers, especially in Brazil and Mexico, contributed to a 7% increase in total glass container shipments in the region in the third quarter of 2017 compared to the same quarter in the prior year and this increased sales by \$20 million. Higher pricing increased net sales by \$13 million in the current quarter. The favorable effects of foreign currency exchange rate changes increased net sales by \$14 million in the third quarter of 2017 compared to 2016, principally due to the strengthening of the Mexican peso in relation to the U.S. dollar.

Asia Pacific: Net sales in Asia Pacific in the third quarter of 2017 were \$188 million compared with \$170 million for the third quarter of 2016, an increase of \$18 million, or 11%. Glass container shipments were up 4% in the third quarter of 2017 compared to the same period in the prior year, primarily due to higher shipments to beer customers in Australia, and this contributed to \$9 million of higher sales in the quarter. Slightly higher selling prices increased net sales by \$4 million in the current quarter. The favorable effects of foreign currency exchange rate changes in the current year quarter increased net sales by \$5 million.

Earnings from Continuing Operations before Income Taxes and Segment Operating Profit

Earnings from continuing operations before income taxes were \$172 million in the third quarter of 2017 compared to \$153 million in the third quarter of 2016, an increase of \$19 million, or 12%. This increase was primarily related to higher segment operating profit.

Operating profit of the reportable segments includes an allocation of some corporate expenses based on a percentage of sales and direct billings based on the costs of specific services provided. Unallocated corporate expenses and certain other expenses not directly related to the reportable segments' operations are included in Retained corporate costs and other. For further information, see Segment Information included in Note 1 to the Condensed Consolidated Financial Statements.

Segment operating profit of reportable segments in the third quarter of 2017 was \$260 million compared to \$237 million for the third quarter of 2016, an increase of \$23 million, or 10%. The increase was largely attributable to higher selling prices and favorable foreign currency effects, partially offset by higher operating costs.

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

| | | |
|---|-------|--------|
| Reportable segment operating profit - 2016 | | \$ 237 |
| Price | \$ 24 | |
| Sales volume and mix | (1) | |
| Operating costs | (6) | |
| Effects of changing foreign currency rates | 6 | |
| Total net effect on reportable segment operating profit | | 23 |
| Reportable segment operating profit - 2017 | | \$ 260 |

Europe: Segment operating profit in Europe in the third quarter of 2017 was \$81 million compared with \$64 million in the third quarter of 2016, an increase of \$17 million, or 27%. Operating costs were \$12 million lower in the third quarter of 2017 than the prior year quarter due to cost savings initiatives and the receipt of an energy credit from a local government entity that was received in the fourth quarter of the prior year. The net impact of sales volume and mix discussed above increased segment operating profit by \$1 million. The effects of foreign currency exchange rates increased segment operating profit by \$4 million in the current year quarter.

North America: Segment operating profit in North America in the third quarter of 2017 was \$75 million compared with \$79 million in the third quarter of 2016, a decrease of \$4 million, or 5%. The decrease in sales volume discussed above decreased segment operating profit in the current year quarter by \$9 million. Selling prices were \$7 million higher in the current quarter compared to the prior year quarter. Operating costs in the third quarter of 2017 were \$1

million higher than the same quarter in the prior year and this reduced segment operating profit. Higher cost inflation in the quarter was partially offset by cost reductions, as well as higher equity earnings from the Company's joint venture with Constellation Brands in Mexico. Beginning in the first quarter of 2017, equity earnings from this joint-venture were recorded in the North American region. In prior years, equity earnings from this joint venture were recorded in retained corporate costs and other as the joint venture was mostly in construction mode. The effects of foreign currency exchange rates decreased segment operating profit by \$1 million in the current year quarter.

Latin America: Segment operating profit in Latin America in the third quarter of 2017 was \$84 million compared with \$74 million in the third quarter of 2016, an increase of \$10 million, or 14%. Higher selling prices increased segment operating profit in the current year quarter by \$13 million. The increase in sales volume discussed above increased segment operating profit by \$5 million. Segment operating profit was impacted by \$11 million of higher operating costs in the quarter due to cost inflation and the nonoccurrence of gains on non-strategic asset sales recorded in the prior year quarter. The effects of foreign currency exchange rates increased segment operating profit by \$3 million in the current year quarter.

Asia Pacific: Segment operating profit in Asia Pacific in the third quarter of 2017 was \$20 million compared with \$20 million in the third quarter of 2016. Higher selling prices increased segment operating profit in the third quarter of 2017

by \$4 million. The increase in sales volume discussed above increased segment operating profit by \$2 million. Despite higher production levels and cost containment efforts, cost inflation and higher supply chain costs, partially related to servicing increased sales, in the region drove operating costs higher and decreased segment operating profit by \$10 million in the quarter. Also, in the third quarter of 2017, the region recorded a gain of \$4 million related to a land sale.

Interest Expense, Net

Net interest expense for the third quarter of 2017 was \$63 million compared with \$66 million for the third quarter of 2016. This decrease in net interest expense was due to deleveraging and refinancing actions taken since the third quarter of 2016.

Provision for Income Taxes

The Company's effective tax rate from continuing operations for the three months ended September 30, 2017 was 21.5% compared with 23.5% for the three months ended September 30, 2016. The effective tax rate for the third quarter of 2017 was lower than the same period in the prior year, in part, due to the lower full year effective tax rate in 2017 compared to 2016.

Earnings from Continuing Operations Attributable to the Company

For the third quarter of 2017, the Company recorded earnings from continuing operations attributable to the Company of \$128 million, or \$0.77 per share (diluted), compared to \$111 million, or \$0.68 per share (diluted), in the third quarter of 2016.

Executive Overview – Nine Months ended September 30, 2017 and 2016

2017 Highlights

- Net sales in the first nine months of 2017 were 2% higher compared to the prior year period, driven by higher prices and the favorable effects of changes in foreign currency exchange rates.
- Completed a tender offer to purchase approximately \$228 million, or 91%, of the Company's outstanding 7.80% Senior Debentures due in 2018.

- Issued €225 million of 3.125% senior notes due in 2024.
- The provision for income taxes was lower than the prior year primarily due to the resolution of a tax matter that resulted in approximately \$26 million of tax accruals to be reversed in 2017.
- Received \$115 million from selling the Company's right, title and interest in amounts due under a prior arbitration award against Venezuela.

Net sales for the first nine months of 2017 were \$97 million higher than the same period in the prior year primarily due to higher pricing and the favorable effect of changes in foreign currency exchange rates.

Earnings from continuing operations before income taxes were \$396 million in the first nine months of 2017 compared to \$395 million in the same period in the prior year, an increase of \$1 million, or less than 1%. This increase was impacted by higher segment operating profit, mostly offset by higher restructuring, asset impairment and other charges and higher charges related to debt redeemed in the 2017 period. Segment operating profit for reportable segments for the first nine months of 2017 was \$49 million higher than the same period in the prior year with all four regions' segment operating profit exceeded their prior year amounts.

Net interest expense for the first nine months of 2017 was \$204 million compared with \$199 million for the first nine months of 2016. Interest expense for 2017 included \$17 million due to note repurchase premiums and the write-off of finance fees related to debt redeemed in the first quarter of 2017. Exclusive of these items, net interest expense decreased \$12 million in the current year period primarily due to deleveraging and refinancing actions.

Net earnings from continuing operations attributable to the Company for the first nine months of 2017 was \$316 million, or \$1.92 per share (diluted), compared with \$286 million, or \$1.75 per share (diluted), for the first nine months of 2016. Earnings in 2017 and 2016 included items that management considered not representative of ongoing operations as set forth in the following table (dollars in millions).

| Description | Net Earnings | |
|--|------------------------|---------|
| | Increase (Decrease) | |
| | 2017 | 2016 |
| Restructuring, asset impairment and other charges | \$ (49) | \$ (19) |
| Gain on China land compensation | | 7 |
| Note repurchase premiums and write-off of finance fees | (17) | |
| Tax benefit recorded for certain tax adjustments | 20 | |
| Net tax benefit for income tax on items above | 12 | 4 |
| Net impact of noncontrolling interests on items above | 4 | (2) |
| Total | \$ (30) | \$ (10) |

Results of Operations – First nine months of 2017 compared with first nine months of 2016

Net Sales

The Company's net sales in the first nine months of 2017 were \$5,157 million compared with \$5,060 million for the first nine months of 2016, an increase of \$97 million, or 2%. Favorable foreign currency exchange rates, primarily due to a stronger Euro, Brazilian real, Colombian peso, Australian dollar and New Zealand dollar, increased sales by \$42 million in the first nine months of 2017 compared to the same period in 2016. Higher selling prices benefited net sales by \$51 million in 2017. Total glass container shipments, in tonnes, were up approximately 1% in the first nine months of 2017 compared to the same period in the prior year. However, an unfavorable mix resulted in approximately \$3 million of lower sales.

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

| | | |
|--|-------|----------|
| Reportable segment net sales - 2016 | | \$ 5,013 |
| Price | \$ 51 | |
| Sales volume and mix | (3) | |
| Effects of changing foreign currency rates | 42 | |
| Total effect on reportable segment net sales | | 90 |
| Reportable segment net sales - 2017 | | \$ 5,103 |

Europe: Net sales in Europe in the first nine months of 2017 were \$1,813 million compared with \$1,795 million for the first nine months of 2016, an increase of \$18 million, or 1%. Net sales were benefited in the first nine months of 2017 by a 1% increase in glass container shipments driven by higher shipments to beer customers. This increased net sales by \$24 million compared to the prior year period. Favorable foreign currency exchange rate increased net sales by \$5 million, as the Euro strengthened in relation to the U.S. dollar. As a result of the pass through of 2016 cost deflation to customers under contractual price adjustment formulas, selling prices in Europe were \$11 million lower in the first nine months of 2017 compared to the same period in the prior year.

North America: Net sales in North America in the first nine months of 2017 were \$1,651 million compared with \$1,709 million for the first nine months of 2016, a decrease of \$58 million, or 3%. Slightly higher selling prices increased net sales by \$22 million in the first nine months of 2017. However, lower shipments and an unfavorable sales mix resulted in \$80 million of lower sales. This impact to sales mix was due to several customers converting a portion of their glass shipments from carton packaging to bulk shipments. Total glass container shipments in the region were 3% lower in the first nine months of 2017 compared to the same period in 2016, driven by lower shipments to beer customers.

Latin America: Net sales in Latin America in the first nine months of 2017 were \$1,123 million compared with \$1,022 million for the first nine months of 2016, an increase of \$101 million, or 10%. Strong shipments in Mexico and slightly higher shipments in Brazil offset slightly lower shipments in the other countries in the region. Total glass container shipments in the region were up 5% in the first nine months of 2017 compared to the same period in the prior year and this increased sales by \$46 million. The favorable effects of foreign currency exchange rate changes increased net sales \$24 million in the first nine months of 2017, principally due to a strengthening of the Brazilian real and Colombian peso in relation to the U.S. dollar. Higher pricing increased net sales by \$31 million in the first nine months of 2017.

Asia Pacific: Net sales in Asia Pacific in the first nine months of 2017 were \$516 million compared with \$487 million for the first nine months of 2016, an increase of \$29 million, or 6%. The favorable effects of foreign currency exchange rate changes during the first nine months of 2017, primarily due to the strengthening of the Australian dollar and New Zealand dollar in relation to the U.S. dollar, increased net sales by \$13 million. Glass container shipments were down 1% in the first nine months of 2017; however, a favorable sales mix contributed to \$7 million of higher sales in 2017. Slightly higher selling prices also increased net sales by \$9 million in the first nine months 2017.

Earnings from Continuing Operations before Income Taxes and Segment Operating Profit

Earnings from continuing operations before income taxes were \$396 million in the first nine months of 2017 compared with \$395 million for the same period in 2016, an increase of \$1 million, or less than 1%. This increase was impacted by higher segment operating profit, mostly offset by higher restructuring, asset impairment and other charges and higher charges related to debt redeemed in the 2017 period.

Operating profit of the reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided. Unallocated corporate expenses and certain other expenses not directly related to the reportable segments' operations are included in Retained corporate costs and other. For further information, see Segment Information included in Note 1 to the Condensed Consolidated Financial Statements.

Segment operating profit of reportable segments in the first nine months of 2017 was \$730 million compared with \$681 million for the first nine months of 2016, an increase of \$49 million, or 7%. The increase was largely attributable to higher selling prices and the favorable effect of changes in foreign currency exchange rates.

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

Reportable segment operating profit - 2016

\$ 681

| | | |
|---|-------|--------|
| Price | \$ 51 | |
| Sales volume and mix | — | |
| Operating costs | (6) | |
| Effects of changing foreign currency rates | 4 | |
| Total net effect on reportable segment operating profit | | 49 |
| Reportable segment operating profit - 2017 | | \$ 730 |

Europe: Segment operating profit in Europe in the first nine months of 2017 was \$220 million compared with \$192 million in the first nine months of 2016, an increase of \$28 million, or 15%. Operating costs were \$32 million lower in the first nine months of 2017 than the prior year period due to cost savings initiatives and the receipt of an energy credit from a local government entity that was received in the fourth quarter of the prior year. The increase in sales volume discussed above improved segment operating profit by \$5 million. Lower selling prices decreased segment operating profit in the first nine months of 2017 by \$11 million. The favorable effects of foreign currency exchange rates increased segment operating profit by \$2 million in 2017.

North America: Segment operating profit in North America in the first nine months of 2017 was \$252 million compared with \$247 million in the first nine months of 2016, an increase of \$5 million, or 2%. Selling prices were \$22 million higher in the first nine months of 2017 compared to the same period in the prior year. In addition, approximately \$5 million in gains related to non-strategic asset sales were recognized by the region in the first nine months of 2017. The

unfavorable sales mix and lower shipments discussed above decreased segment operating profit by \$18 million. Operating costs in the first nine months of 2017 were slightly higher than the same period in the prior year and this reduced segment operating profit by \$3 million. Higher cost inflation during this period was partially offset by cost reductions and higher equity earnings from the Company's joint venture with Constellation Brands in Mexico. Beginning in the first quarter of 2017, equity earnings from this joint-venture were recorded in the North American region. In prior years, equity earnings from this joint venture were recorded in retained corporate costs and other as the joint venture was mostly in construction mode. The unfavorable effects of foreign currency exchange rates decreased segment operating profit by \$1 million in 2017.

Latin America: Segment operating profit in Latin America in the first nine months of 2017 was \$207 million compared with \$194 million in the first nine months of 2016, an increase of \$13 million, or 7%. Segment operating profit was impacted by \$33 million of higher operating costs, primarily due to substantial cost inflation and the nonoccurrence of gains on non-strategic asset sales recorded in the prior year. Partially offsetting these declines were higher selling prices that increased segment operating profit in the first nine months of 2017 by \$31 million. The increase in sales volume discussed above increased segment operating profit by \$12 million. The favorable effects of foreign currency exchange rates increased segment operating profit by \$3 million in 2017.

Asia Pacific: Segment operating profit in Asia Pacific in the first nine months of 2017 was \$51 million compared with \$48 million in the first nine months of 2016, an increase of \$3 million, or 6%. Higher selling prices increased segment operating profit in the first nine months of 2017 by \$9 million. The change in sales volume and mix discussed above increased segment operating profit by \$1 million. Despite higher production levels and cost containment efforts, cost inflation and higher supply chain costs, partially related to servicing increased sales, in the region drove operating costs higher and decreased segment operating profit by \$11 million. Also, in the first nine months of 2017, the region recorded \$4 million of gain related to a land sale.

Interest Expense, Net

Net interest expense for the first nine months of 2017 was \$204 million compared with \$199 million for the first nine months of 2016. Interest expense for 2017 included \$17 million due to note repurchase premiums and the write-off of finance fees related to debt redeemed in the first quarter of 2017. Exclusive of these items, net interest expense decreased \$12 million in the current year period primarily due to deleveraging and refinancing actions.

Provision for Income Taxes

The Company's effective tax rate from continuing operations for the nine months ended September 30, 2017 was 16.4% compared with 23.5% for the nine months ended September 30, 2016. The effective tax rate for the first nine months of 2017 was lower than the same period in the prior year primarily due to the resolution of a tax matter that resulted in approximately \$26 million of tax accruals reversed in the second quarter of 2017.

The Company expects that the full year effective tax rate for 2017 will be approximately 22% (excluding items that management considers not representative of ongoing operations).

Earnings from Continuing Operations Attributable to the Company

For the first nine months of 2017, the Company recorded earnings from continuing operations attributable to the Company of \$316 million, or \$1.92 per share (diluted), compared \$286 million, or \$1.75 per share (diluted), in the first nine months of 2016. Earnings in 2017 and 2016 included items that management considered not representative of ongoing operations as set forth in the following table (dollars in millions).

42

| Description | Net Earnings | |
|--|------------------------|---------|
| | Increase (Decrease) | |
| | 2017 | 2016 |
| Restructuring, asset impairment and other charges | \$ (49) | \$ (19) |
| Gain on China land compensation | | 7 |
| Note repurchase premiums and write-off of finance fees | (17) | |
| Tax benefit recorded for certain tax adjustments | 20 | |
| Net tax benefit for income tax on items above | 12 | 4 |
| Net impact of noncontrolling interests on items above | 4 | (2) |
| Total | \$ (30) | \$ (10) |

Items Excluded from Reportable Segment Totals

Retained Corporate Costs and Other

Retained corporate costs and other for the third quarter of 2017 were \$25 million and higher compared with the \$18 million recorded in the third quarter of 2016, primarily due to higher management incentive expense. For the first nine months of 2017, retained corporate costs and other were \$81 million compared with \$75 million for the same period in 2016, primarily due to lower equity earnings.

Restructuring, Asset Impairments and Other Charges

During the three and nine months ended September 30, 2017, the Company recorded restructuring, asset impairment and other charges of \$0 million and \$49 million, respectively. These charges primarily consist of employee costs, write-down of assets, and other exit costs in the following regions: Latin America (\$33 million), Europe (\$13 million) and North America (\$3 million). Except for the charges recorded in Europe, the other discrete restructuring charges recorded in 2017 are expected to approximate the total cumulative costs for those actions as no significant additional costs are expected to be incurred. The Company has recorded total cumulative charges of \$54 million related to a plant closure in Europe and does not expect to execute any further significant actions related to this facility. The restructuring charges recorded in 2017 in the Latin American and European regions primarily relate to capacity curtailments and products produced at those facilities have, in large part, been reallocated to others in their respective regions. The Company expects that the majority of the remaining cash expenditures related to the above charges will be paid out by the end of 2018.

During the three and nine months ended September 30, 2016, the Company recorded restructuring, asset impairment and other charges of \$0 million and \$19 million, respectively. These charges primarily represented employee costs, write-down of assets, and other exit costs of \$14 million for a plant closure in the first quarter of 2016 in Latin America, \$3 million related to a previous plant closure in North America, \$1 million in Asia Pacific and \$1 million related to other restructuring actions. The discrete restructuring charges recorded in the first quarter of 2016 are expected to approximate the total cumulative costs for those actions as no significant additional costs are expected to

be incurred. The restructuring charges recorded in the first quarter of 2016 in the Latin American region primarily relate to a capacity curtailment. The Company reallocated the products produced at this facility to others in the region. The Company expects that the majority of the remaining cash expenditures related to the above charges will be paid out by the end of 2017. Partially offsetting the restructuring charges in the first quarter of 2016 was a \$7 million gain related to compensation received for land that the Company was required to return to the Chinese government.

See Note 5 to the Condensed Consolidated Financial Statements for additional information.

Pension Settlement Charges

In the fourth quarter of 2017, the Company intends to settle certain liabilities associated with its pension plans in the United States and Canada. These settlements are expected to result in non-cash charges in excess of \$100 million in the fourth quarter of 2017.

Discontinued Operations

On April 4, 2016, the annulment committee formed by the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") ruled that OI European Group B.V. ("OIEG"), a subsidiary of the Company, is free to pursue the enforcement of a prior arbitration award (the "Award") against Venezuela. As of September 30, 2017, that Award amounts to more than \$500 million, including reimbursement of expenses and accrued interest. Venezuela's application to annul the Award was heard by an ad hoc committee of the ICSID in September 2017, but no decision has been rendered yet.

On July 31, 2017, OIEG sold its right, title and interest in amounts due under the Award to an Ireland-domiciled investment fund. Under the terms of the sale, OIEG received a payment, in cash, at closing equal to \$115 million (the "Cash Payment"). OIEG may also receive additional payments in the future ("Deferred Amounts") calculated based on the total compensation that is received from Venezuela as a result of collection efforts or as settlement of the Award with Venezuela. In the event that the Award is partially or completely annulled by the ICSID ad hoc annulment committee, OIEG may be required to repay to the purchaser up to the entire amount of the Cash Payment based on a formula tied to the amount of the Award (if any) that is annulled. In addition, OIEG's right to receive any Deferred Amounts is subject to the limitations described below.

OIEG's interest in any amounts received in the future from Venezuela in respect of the Award is limited to a percentage of such recovery after taking into account reimbursement of the Cash Payment to the purchaser and reimbursement of legal fees and expenses incurred by the Company and the purchaser. OIEG's percentage of such recovery will also be reduced over time. Because the Award has yet to be satisfied, the annulment proceeding is pending, and the ability to successfully enforce the Award in countries that are party to the ICSID Convention is subject to significant challenges, the Company is unable to reasonably predict the amount of recoveries from the Award, if any, to which the Company may be entitled in the future. Any future amounts that the Company may receive from the Award are highly speculative and the timing of any such future payments, if any, is highly uncertain. As such, there can be no assurance that the Company will receive any future payments under the Award beyond the Cash Payment. Except as noted above in connection with the annulment proceeding that is pending before the ICSID ad hoc committee, the Cash Payment is not subject to any forfeiture or future adjustment.

A separate arbitration involving other subsidiaries of the Company is pending before ICSID to obtain compensation primarily for third-party minority shareholders' lost interests in the two expropriated plants.

As of September 30, 2017, the Company deferred the gain contingency on the sale of its rights in amounts due under the Award pending the ad hoc committee of the ICSID rendering its decision regarding Venezuela's application to annul the Award. The loss from discontinued operations of \$2 million and \$6 million for the nine months ended September 30, 2017 and September 30, 2016, respectively, relates to ongoing costs for the Venezuelan expropriation.

Capital Resources and Liquidity

On April 22, 2015, the Company entered into a Senior Secured Credit Facility, which subsequently has been amended several times with the most recent amendment being entered into on September 28, 2017 (the “Amended Agreement”).

At September 30, 2017, the Amended Agreement includes a \$300 million revolving credit facility, a \$600 million multicurrency revolving credit facility, a \$1,575 million term loan A facility (\$1,202 million net of debt issuance costs), and a €279 million term loan A facility (\$308 million net of debt issuance costs), each of which has a final maturity date of April 22, 2020. At September 30, 2017, the Company had unused credit of \$655 million available under the Amended Agreement. The weighted average interest rate on borrowings outstanding under the Amended Agreement at September 30, 2017 was 2.57%.

The Amended 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 payments, make certain asset sales within guidelines and limits, engage

in certain affiliate transactions, participate in sale and leaseback financing arrangements, alter its fundamental business, and amend certain subordinated debt obligations.

The Amended Agreement also contains one financial covenant, a Total Leverage Ratio that requires the Company not to exceed a ratio calculated by dividing consolidated total debt, less cash and cash equivalents (“Net Indebtedness”), by consolidated EBITDA, as defined in the Amended Agreement. The Total 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 Total Leverage Ratio to exceed the specified maximum of (i) 4.5x for the fiscal quarter ending September 30, 2017, and (ii) 4.0x for the fourth fiscal quarter ending December 31, 2017 and each fiscal quarter thereafter.

On September 28, 2017, the Company entered into Amendment No. 5 (“Amendment No. 5”) to the Amended Agreement. Amendment No. 5 changes the calculation of the Total Leverage Ratio by excluding from the calculation of Net Indebtedness ordinary course revolver borrowings (except to the extent such borrowings existed at the prior year end) and non-recourse factoring or securitization debt.

Failure to comply with these covenants and restrictions could result in an event of default under the Amended Agreement. In such an event, the Company would be unable to request borrowings under the revolving facility, and all amounts outstanding under the Amended Agreement, together with accrued interest, could then be declared immediately due and payable. If an event of default occurs under the Amended Agreement and the lenders cause all of the outstanding debt obligations under the Amended 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. As of September 30, 2017, the Company was in compliance with all covenants and restrictions in the Amended Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Amended Agreement will not be adversely affected by the covenants and restrictions.

The interest rates on borrowings under the Amended Agreement are, at the Company’s option, the Base Rate or the Eurocurrency Rate, as defined in the Amended Agreement, plus an applicable margin. The applicable margin for the term loan A facility and the revolving credit facility is linked to the Company’s Total Leverage Ratio and ranges from 1.25% to 1.75% for Eurocurrency Rate loans and from 0.25% to 0.75% for Base Rate loans. In addition, a facility fee is payable on the revolving credit facility commitments ranging from 0.20% to 0.30% per annum linked to the Total Leverage Ratio.

Borrowings under the Amended Agreement are secured by substantially all of the assets, excluding real estate and certain other excluded assets, of certain of the Company’s domestic subsidiaries and certain foreign subsidiaries. Borrowings are also secured by a pledge of intercompany debt and equity investments in certain of the Company’s domestic subsidiaries and, in the case of foreign borrowings, of stock of certain foreign subsidiaries. All borrowings under the Amended Agreement are guaranteed by certain domestic subsidiaries of the Company.

During August 2015, the Company issued senior notes with a face value of \$700 million that bear interest at 5.875% and are due August 15, 2023 (the “Senior Notes due 2023”) and senior notes with a face value of \$300 million that bear interest at 6.375% and are due August 15, 2025 (together with the Senior Notes due 2023, the “2015 Senior Notes”). The 2015 Senior Notes were issued via a private placement and are guaranteed by certain of the Company’s domestic subsidiaries. The net proceeds from the 2015 Senior Notes, after deducting the debt discount and debt issuance costs, totaled approximately \$972 million.

During November 2016, the Company issued senior notes with a face value of €500 million that bear interest at 3.125% and are due November 15, 2024 (the “Senior Notes due 2024”). The notes were issued via a private placement and are guaranteed by certain of the Company’s domestic subsidiaries. The net proceeds, after deducting debt issuance costs, totaled approximately \$520 million and were used to repay the term loan B facility under the Amended Agreement. In March 2017, the Company expanded its borrowings under the Senior Notes due 2024 by issuing €225 million of additional notes that bear interest at 3.125% and are due November 15, 2024. The notes were issued via a

private placement and are guaranteed by certain of the Company's domestic subsidiaries. The net proceeds, after deducting debt issuance costs, totaled approximately \$237 million and were used to repay a portion of the Company's revolving credit facility.

In March 2017, the Company purchased in a tender offer approximately \$228 million aggregate principal amount of its 7.80% Senior Debentures due in 2018. Approximately \$22 million of the Senior Debentures remain outstanding as of

45

September 30, 2017. As part of the tender offer, the Company recorded \$17 million of additional interest charges for note repurchase premiums and the related write-off of unamortized finance fees in the first quarter of 2017.

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

The Company has a €185 million European accounts receivable securitization program, which extends through March 2019, subject to periodic renewal of backup credit lines.

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

| | September 30, 2017 | December 31, 2016 | September 30, 2016 | | |
|--|--------------------------|-------------------------|--------------------------|--|--|
| Balance (included in short-term loans) | \$ 170 | \$ 152 | \$ 158 | | |
| Weighted average interest rate | 0.65 % | 0.74 % | 0.67 % | | |

Cash Flows

Operating activities: Cash provided by continuing operating activities was \$39 million for the nine months ended September 30, 2017, compared to \$226 million for the nine months ended September 30, 2016. The decrease in cash provided by continuing operating activities in the first nine months of 2017 was primarily due to an increase in working capital of \$601 million in the 2017 period compared to an increase in working capital of \$320 million in the same period in 2016. This increase was mainly due to the nonoccurrence of a refund the Company received in the third quarter of 2016 on value added taxes previously paid in conjunction with an acquisition, as well as higher accounts receivable during the first nine months of 2017 as the Company sold fewer receivables through its factoring programs. Partially offsetting this were higher net earnings and higher non-cash charges, such as restructuring, asset impairment and related charges, in the first nine months of 2017.

Investing activities: Cash utilized in continuing investing activities was \$315 million for the nine months ended September 30, 2017, compared to \$282 million for the nine months ended September 30, 2016. Capital spending for property, plant and equipment was \$292 million during the first nine months of 2017 and \$310 million in the same period in 2016. Acquisition activities were \$37 million and \$45 million in the first nine months of 2017 and 2016, respectively, and were primarily related to contributions made to the Company's investment in a joint venture in Nava, Mexico. During the first nine months of 2017, the Company received \$14 million in net proceeds from the disposal of assets compared to \$57 million of proceeds in the same period in the prior year. In 2016, these proceeds included the sale of land use rights in China that did not repeat in 2017. Also, in the third quarter of 2017, a subsidiary of the Company received \$115 million from selling its right, title and interest in amounts due under a prior arbitration award against Venezuela related to a discontinued operation. See Note 15 to the Condensed Consolidated Financial Statements for additional information.

In late October 2017, the Company signed an agreement to expand its joint venture with Constellation. To meet rising demand from Constellation's adjacent brewery, the newly-expanded relationship provides for the addition of a fifth furnace, which is expected to be operational by the end of 2019. This capacity expansion, which is estimated to cost approximately \$140 million, will be financed by equal contributions from both partners throughout 2018 and 2019. The term of the joint venture agreement was also extended for ten additional years, to 2034.

Financing activities: Cash utilized by financing activities was \$14 million for the nine months ended September 30, 2017, compared to \$39 million for the nine months ended September 30, 2016. The decrease in cash utilized by financing activities was primarily due to higher net borrowings, partially offset by the payment of \$23 million of finance fees in the first nine months of 2017, principally related to note repurchase premiums associated with the tender offer to purchase the 2018 Senior Debentures.

The Company anticipates that cash flows from its operations and from utilization of credit available under the Agreement will be sufficient to fund its operating and seasonal working capital needs, debt service and other obligations

on a short-term (twelve-months) and long-term basis. Based on the Company's expectations regarding future payments for lawsuits and claims and also based on the Company's expected operating cash flow, the Company believes that the payment of any deferred amounts of previously settled or otherwise determined lawsuits and claims, and the resolution of presently pending and anticipated future lawsuits and claims associated with asbestos, will not have a material adverse effect upon the Company's liquidity on a short-term or long-term basis.

Critical Accounting Estimates

The Company's analysis and discussion of its financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The Company evaluates these estimates and assumptions on an ongoing basis. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances at the time the financial statements are issued. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.

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

There have been no other material changes in critical accounting estimates at September 30, 2017 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Forward-Looking Statements

This document contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 27A of the Securities Act of 1933. Forward-looking statements reflect the Company's current expectations and projections about future events at the time, and thus involve uncertainty and risk. The words "believe," "expect," "anticipate," "will," "could," "would," "should," "may," "plan," "estimate," "predict," "potential," "continue," and the negatives of these words and other similar expressions generally identify forward-looking statements. It is possible the Company's future financial performance may differ from expectations due to a variety of factors including, but not limited to the following: (1) the Company's ability to realize expected growth opportunities, cost savings and synergies from the Vitro Acquisition, (2) foreign currency fluctuations relative to the U.S. dollar, (3) changes in capital availability or cost, including interest rate fluctuations and the ability of the Company to refinance debt at favorable terms, (4) 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, (5) the Company's ability to generate sufficient future cash flows to ensure the Company's goodwill is not impaired, (6) consumer preferences for alternative forms of packaging, (7) cost and availability of raw materials, labor, energy and transportation, (8) the Company's ability to manage its cost structure, including its success in implementing restructuring plans and achieving cost savings, (9) consolidation among competitors and customers, (10) the Company's ability to acquire businesses and expand plants, integrate operations of acquired businesses and achieve expected synergies, (11) unanticipated expenditures with respect to environmental, safety and health laws, (12) the Company's ability to further develop its sales, marketing and product development capabilities, (13) the Company's ability to prevent and detect cybersecurity threats against its information technology systems, (14) the Company's ability to accurately estimate its total asbestos-related liability or to control the timing and occurrence of events related to asbestos-related claims, (15) changes in U.S. trade policies, (16) the Company's ability to achieve its strategic plan, and the other risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and any subsequently filed Quarterly Report on Form 10-Q. It is not possible to foresee or identify all such factors. Any forward-looking statements in this document are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected

future developments, and other factors it believes are appropriate in the circumstances. Forward-looking statements are not a guarantee of future performance and actual results or developments may differ materially from expectations. While the Company continually reviews trends and uncertainties affecting the Company's results of operations and financial condition, the Company does not assume any obligation to update or supplement any particular forward-looking statements contained in this document.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in market risk at September 30, 2017 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC'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 September 30, 2017.

As required by Rule 13a-15(d) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of any change in the Company's internal controls over financial reporting that has 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 fiscal quarter ended September 30, 2017 that have materially affected, or are reasonably likely to material affect, the Company's internal controls over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

For further information on legal proceedings, see Note 9 to the Condensed Consolidated Financial Statements, “Contingencies,” that is included in Part I of this Quarterly Report and incorporated herein by reference.

Item 1A. Risk Factors.

There have been no material changes in risk factors at September 30, 2017 from those described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

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

The Company did not purchase any shares of its common stock for the three and nine months ended September 30, 2017. The Company has \$380 million remaining for repurchases 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.

Item 6. Exhibits.

- Exhibit 3.1 Owens-Illinois, Inc. Fourth Amended and Restated By-Laws (filed as Exhibit 3.1 to Owens-Illinois, Inc.'s Form 8-K filed July 13, 2017, File No. 1-9576, and incorporated herein by reference).
- Exhibit 4.1 Amendment No. 5, dated September 28, 2017, in respect of the Amended and Restated Credit Agreement and Syndicated Facility Agreement, dated April 22, 2015, by and among the Borrowers named therein, Owens-Illinois General Inc., as Borrowers' 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, Inc.'s Form 8-K filed September 29, 2017, File No. 1-9576, and incorporated herein by reference).
- Exhibit 10.1 Owens-Illinois, Inc. 2017 Incentive Award Plan (filed as Appendix B to Owens-Illinois, Inc.'s Definitive Proxy Statement on Schedule 14A filed March 30, 2017, File No. 1-9576, and incorporated herein by reference).
- Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.
- Exhibit 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.1* Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
- Exhibit 32.2* Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.
- Exhibit 101 Financial statements from the Quarterly Report on Form 10-Q of Owens-Illinois, Inc. for the quarter ended September 30, 2017, formatted in XBRL: (i) the Condensed Consolidated Results of Operations, (ii) the Condensed Consolidated Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

*This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OWENS-ILLINOIS, INC.

Date October 24, 2017 By /s/ Jan A. Bertsch
Jan A. Bertsch
Senior Vice President and Chief Financial Officer