



Strong financial performance amid a challenging global market

Dear Stakeholder:

Despite one of the most challenging economic climates we have ever faced, I am pleased to report that 2009 was one of our best years in terms of earnings and free cash flow generation. We accomplished this by maintaining a clear focus on the path forward and on the execution of our four strategic priorities: marketing glass, innovation and technology, strategic and profitable growth, and operational excellence. Although we clearly had to adapt to the challenges of the global recession, we did not let it alter our course.

During the past few years, we have concentrated on reasserting our technology leadership and transforming O-I into a market-based, customer-oriented organization. This has required significant change in the way we operate internally, as well as the way in which we manage customer relationships. We have invested in training and development programs for our sales and marketing teams, and have begun implementing global processes and information systems to bring consistency and more complete data for decision making. Since 2006, we have increased our margins from an average of 11 percent to 14 percent, a result of our pricing and profitability strategy. We have successfully placed a value on the flexibility and responsiveness we bring as a partner to our customers.

While sales were down about 10 percent in 2009, strong working capital management helped us generate \$370 million in cash. We managed the unprecedented volume declines experienced in 2009 by carefully balancing inventory with demand, which required us to take temporary shutdowns in many plants. Our manufacturing leadership and plant managers demonstrated enormous flexibility in managing this situation, and achieved inventory levels in 2009 that were 11 percent below those of 2008.

Adjusted net earnings from continuing operations were \$2.93 per share in 2009, compared with \$3.80 per share in 2008. The lower earnings are the result of market-based volume declines, cost inflation and unfavorable currency translation, which was offset by our higher price and sales mix, and benefits from our strategic footprint initiative program.

We invested more than \$425 million of capital and reduced fixed costs in our operations by \$122 million in 2009. This reflects our ongoing efforts to optimize our global assets. To eliminate excess capacity in our system, we closed two plants in Europe, and we announced the closure of two other plants in

North America. We have now permanently closed six plants and shut down 21 furnaces since 2007 and are a much leaner and more efficient organization.

Decisions to close plants are heart wrenching, as the vast majority of our plant employees have worked for us for many years, some for their entire working lives. Such events disrupt lives and sometimes whole communities. While we do all that we can to mitigate the impact of these decisions, we know they must be made to protect the remaining 22,000 people in the O-I family.

The most exciting development we are seeing at O-I these days is our focus on research and development, through our investment in technology and innovation. We are expanding our glass science research and development capabilities, and we have introduced a new structure for our innovation group that more closely links their work to the demands of the marketplace. Innovation is the great differentiator in the glass industry, and we expect it to help us gain time and technological distance from our competitors.

We strongly believe that glass is the most environmentally responsible packaging option for our customers. To that end, we invested in developing a complete life cycle analysis of glass, and we have used the information gathered in that research to shape our sustainability goals. We will focus initially on reductions in emissions and energy use and on increasing our use of recycled glass, or cullet, worldwide.

Safety also remains a critical objective. New programs and heightened awareness have successfully reduced our number of lost time accidents, but we will not rest until we have reached our goal of having an accident-free workplace.

As the world emerges from its economic slump, we are well positioned to take advantage of the growth we expect in global glass shipments. We have strengthened many foundational aspects of our business, and we have worked very hard to align our objectives on a global basis. More than 22,000 people at O-I helped us accomplish this, and we are enormously grateful for their perseverance and commitment. We – and more importantly, you – have a strong team, and we are proud of it. O-I's future and the future of glass have never been brighter.

A handwritten signature in black ink, appearing to read "Al Stroucken". The signature is fluid and cursive, with a long horizontal stroke at the end.

Al Stroucken
Chairman and CEO