Owens-Illinois Reports Third Quarter Results

October 18, 2000

TOLEDO, Ohio, Oct. 18 /PRNewswire/ -- Owens-Illinois, Inc., (NYSE: OI) today reported net earnings, excluding unusual items, of $63.9 million, or $0.40 per share (diluted), for the third quarter of 2000. In the third quarter of 1999, the company reported net earnings of $77.5 million, or $0.46 per share (diluted). Third quarter 2000 net sales were $1.430 billion, compared with $1.426 billion in the prior year.

The third quarter 2000 results include unusual charges and asset write-downs totaling $798.3 million ($513.1 million after tax and minority share owners' interests). These include charges totaling $550.0 million ($342.1 million aftertax) for estimated future asbestos indemnity and legal costs and charges totaling $248.3 million ($171.0 million after tax and minority share owners' interests) principally related to a restructuring and capacity realignment program. Including the effects of these unusual items, which are described below, the company reported a third quarter loss of $449.2 million, or $3.12 per share.

Joseph H. Lemieux, Owens-Illinois chairman and chief executive officer, said, "Third quarter operating performance in most of our worldwide glass and plastics businesses was good as worldwide unit shipments increased in both glass containers and plastics packaging. However, the yet-to-be-recovered increases in energy costs, the strength of the U.S. dollar against the Australian dollar and the euro, and higher interest rates all contributed to lower year-over-year results."

Higher prices for natural gas and oil adversely affected worldwide operations by more than $15 million in the third quarter. "Many of our customers, especially in the U.S., have agreements that allow certain cost increases to be recovered only in arrears through annual adjustments. As a result, while we have raised prices in some U.S. and international markets, most of the energy cost increases have yet to be recovered. We expect to recover any unrecovered energy cost increases beginning in 2001," Mr. Lemieux said.

In the third quarter of 2000 the strength of the U.S. dollar against the euro and the Australian dollar again adversely affected year-over-year sales and EBIT comparisons. "Both the euro and the Australian dollar reached record lows for the year against the U.S. dollar during the third quarter. Local currency borrowings give us a partial net earnings hedge against these currency movements but not enough to offset the unusually large movement we have experienced this year. Both currencies have remained weak thus far in the fourth quarter, with the Australian dollar hitting new lows," Mr. Lemieux said.

Net interest expense in the quarter was higher by $16.4 million on a year- over-year basis, reflecting an increase in the average net cost of debt from 6.92% in the prior year quarter to 7.81% in the third quarter of 2000. The increase in net interest expense was caused principally by higher short-term interest rates.

Business Review

The glass containers segment reported third quarter net sales of $948.2 million and EBIT, excluding unusual items, of $145.1 million. In the third quarter of 1999 the glass containers segment had net sales of $982.5 million and EBIT of $156.0 million. (EBIT consists of consolidated earnings before interest income, interest expense, provision for income taxes, and minority share owners' interests in earnings of subsidiaries.)

Unit shipments, net sales, and EBIT of the U.S. glass container operations all declined from the prior year period, principally due to lower sales of glass forming machines and equipment to licensees, higher costs for energy and corrugated boxes, and conversions of juice and iced tea bottles from glass to plastic containers. Shipments of glass beer bottles continued to be strong.

The South American glass container operations reported strong year-over- year increases in unit shipments, net sales, and EBIT, led by affiliates in Colombia, Venezuela, and Brazil. The improved results reflected continued modest economic recovery in the region as well as the benefits of consolidation, cost reduction, and productivity programs.

Sales and EBIT of the European glass container operations were lower on a year-over-year basis, due in part to the effects of unfavorable exchange rates and higher energy and corrugated costs, which adversely affected the results of European affiliates especially in Italy and Spain. European unit shipments exceeded prior year levels, as strong increases in Italy and the Czech Republic were partially offset by lower shipments in the United Kingdom.

The Asia Pacific glass container operations benefited from higher unit shipments in every region. However, reported results were affected adversely by the strength of the U.S. dollar compared with the Australian dollar and other currencies. A decline in net sales from the prior year period was more than accounted for by foreign exchange effects. EBIT was up slightly over the prior year although the increase was limited by the effect of the strong U.S. dollar.

The plastics packaging segment had net sales of $465.5 million and EBIT, excluding unusual items, of $68.0 million in the quarter, compared with net sales of $425.7 million and EBIT of $67.3 million in the 1999 third quarter. Increases in unit shipments and EBIT were reported by every business except HDPE (high density polyethylene) containers.

Unit shipments, net sales, and EBIT of the worldwide custom PET container operations increased over prior-year levels. The operations in Mexico contributed to the year-over-year increases, benefiting from stronger demand and improved performance. Shipments increased at double-digit percentage rates both in the United States and abroad, reflecting continued strong demand for juice, sports drink, and other containers.

The closure and prescription container operations both reported increased unit shipments, net sales, and EBIT compared with the third quarter of 1999. Closure operations benefited from higher shipments of food and beverage closures while prescription products benefited by strong shipments of One- Clic(R) child resistant closures and vials. Shipments of HDPE containers were below prior-year levels.

"Going forward, our restructuring and capacity realignment program is expected to result in annual savings in excess of $50 million," Mr. Lemieux said. "Benefits of this initiative will include improved manufacturing capacity utilization and a significant reduction in fixed costs. This program is an integral part of our strategy to take advantage of growth opportunities around the world by maintaining our leadership in customer satisfaction, quality, and cost. In addition, we have returned to more moderate levels of capital investment following the recent completion of a number of major capital projects."

Restructuring and Capacity Realignment Program

The restructuring and capacity realignment program, initiated in the third quarter of 2000, includes the consolidation of manufacturing capacity and a reduction in the U.S. salaried work force of 350 employees, or about 10%, principally as a result of early retirement incentives. Also included in the charge are a write-down of plant and equipment for the company's glass container affiliate in India and certain other asset write-offs. Manufacturing capacity consolidations principally involve U.S. glass container facilities and reflect technology-driven improvements in productivity, conversions from some juice and similar products to plastic containers, and the further concentration of production in the most strategically-located facilities.

Asbestos-Related Charge

The asbestos-related charge represents the estimate of indemnity costs and legal expenses for the next several years, during which period the company expects to receive the majority of the remaining lawsuits and claims that could involve the company. The estimate is based on a comprehensive review of the company's asbestos-related liabilities and costs, as announced previously. The estimate includes consideration of the negative impact of recent bankruptcy filings, particularly the most recent filing by Owens Corning, but does not include the possibility of partial relief in the form of tax legislation currently pending before the U.S. Congress that would result in funds to compensate asbestos claimants.

A former business unit of the company produced a minor amount of specialized high-temperature insulation material containing asbestos from 1948 until 1958, when the business was sold to Owens Corning. In line with its limited involvement with an asbestos-containing product and its exit from that business over 42 years ago, the company will continue to work aggressively to minimize the number of incoming cases and will continue to limit payments to only those impaired claimants who were exposed to the company's products and whose claims have merit under applicable state law. The Company anticipates that cash flows from operations, expected further insurance reimbursement, and other resources will be sufficient to meet all asbestos-related obligations.

Share Repurchases

As announced previously, the company was authorized in May 1999 to repurchase up to 10 million shares of common stock and in February 2000 to repurchase up to an additional 10 million shares. To date, Owens-Illinois has repurchased approximately 10.9 million shares. The company intends to continue to repurchase its stock from time to time on the open market, depending on market conditions and other considerations.

Nine-Month Results

For the first nine months of 2000, net earnings, excluding unusual items, were $211.1 million, or $1.33 per share (diluted). In the first nine months of 1999, net earnings, excluding unusual items, were $248.1 million, or $1.48 per share (diluted). Including unusual items, the company reported a net loss of $302.0 million, or $2.18 per share (diluted) for the first nine months of 2000, compared to net income of $257.7 million, or $1.54 per share (diluted) for the first nine months of 1999.

Net sales were $4.225 billion for the first nine months of 2000, up from $4.156 billion in the first nine months of 1999.

Unusual Items

As stated above, during the third quarter of 2000 the Company recorded charges of $798.3 million ($513.1 million after tax and minority share owners' interests) related to a restructuring and capacity realignment program and to adjust the reserve to cover pending and future asbestos claims over the next several years.

The 1999 results include the following items, recorded in the second quarter of 1999: net gains totaling $40.8 million ($23.6 million after tax and minority share owners' interests) related to the sales of a U.S. glass container plant and a mold manufacturing business in Colombia; and charges totaling $20.8 million ($14.0 million after tax and minority share owners' interests) related principally to restructuring costs and write-offs of certain assets in Europe and South America.

Forward-Looking Statements

This news release may contain "forward looking" statements as defined in the Private Securities Litigation Reform Act of 1995. Forward looking statements reflect the Company's best assessment at the time, and thus involve uncertainty and risk. It is possible the Company's future financial performance may differ from expectations due to a variety of factors such as those described in the Company's June 30, 2000 Form 10-Q filed with the Securities and Exchange Commission. Forward looking statements are not a guarantee of future performance, and actual results or developments may differ materially from expectations. While the Company continually reviews trends and uncertainties affecting the Company's results of operations and financial condition, the Company does not intend to update any particular forward looking statements contained in this news release.

Company Profile

Owens-Illinois is the largest manufacturer of glass containers in North America, South America, Australia, New Zealand, and China, and one of the largest in Europe. O-I also is a worldwide manufacturer of plastics packaging with operations in North America, South America, Australia, Europe, and Asia. Plastics packaging products manufactured by O-I include containers, closures, and prescription containers.

Conference Call

A conference call to discuss third quarter results will be held Thursday, October, 19, 2000, at 8:30 a.m., EDT. To listen to the conference call, dial 800-733-1701 (U.S. and Canada) or 706-634-6585 (International) by 8:20 a.m. (Eastern Time) on October 19. Ask for the Owens-Illinois conference call.

In addition, a live webcast and a replay of the conference call will be available on the Internet at the Owens-Illinois web site (www.o-i.com). The replay

will be available through October 27.

A replay of the call also will be available from approximately 11:30 a.m. (Eastern Time) on October 19 through 7:00 p.m. (Eastern Time) on October 27. To access the replay, dial 800-642-1687 (U.S. and Canada) or 706-645-9291 (International). The conference ID number to access the replay is 801770.

Copies of Owens-Illinois news releases are available at the Owens-Illinois web site at www.o-i.com; or at www.prnewswire.com; or by fax at Company News on Call, 800-758-5804, Extension 117254. To contact Owens-Illinois investor relations, dial 419-247-2400.
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