

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, 2019

or

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

For the transition period from to

Commission file number 1-9576



OWENS-ILLINOIS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

22-2781933

(IRS Employer
Identification No.)

One Michael Owens Way, Perrysburg, Ohio

(Address of principal executive offices)

43551

(Zip Code)

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

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

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

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

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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

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, 2019 was 155,630,507.

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, 2018.

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED RESULTS OF OPERATIONS
(Dollars in millions, except per share amounts)
(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Net sales	\$ 1,670	\$ 1,734	\$ 5,063	\$ 5,242
Cost of goods sold	(1,371)	(1,410)	(4,131)	(4,253)
Gross profit	299	324	932	989
Selling and administrative expense	(108)	(115)	(339)	(367)
Research, development and engineering expense	(16)	(17)	(50)	(50)
Interest expense, net	(83)	(63)	(215)	(199)
Equity earnings	17	19	55	57
Other income (expense), net (incl. goodwill impairment)	(645)	20	(709)	(49)
Earnings (loss) from continuing operations before income taxes	(536)	168	(326)	381
Provision for income taxes	(31)	(41)	(86)	(95)
Earnings (loss) from continuing operations	(567)	127	(412)	286
Loss from discontinued operations	—	—	(1)	(1)
Net earnings (loss)	(567)	127	(413)	285
Net earnings attributable to noncontrolling interests	(8)	(7)	(17)	(18)
Net earnings (loss) attributable to the Company	<u>\$ (575)</u>	<u>\$ 120</u>	<u>\$ (430)</u>	<u>\$ 267</u>
Amounts attributable to the Company:				
Earnings (loss) from continuing operations	\$ (575)	\$ 120	\$ (429)	\$ 268
Loss from discontinued operations	—	—	(1)	(1)
Net earnings (loss)	<u>\$ (575)</u>	<u>\$ 120</u>	<u>\$ (430)</u>	<u>\$ 267</u>
Basic earnings per share:				
Earnings (loss) from continuing operations	\$ (3.69)	\$ 0.75	\$ (2.77)	\$ 1.67
Loss from discontinued operations	—	—	(0.01)	(0.01)
Net earnings (loss)	<u>\$ (3.69)</u>	<u>\$ 0.75</u>	<u>\$ (2.78)</u>	<u>\$ 1.66</u>
Weighted average shares outstanding (thousands)	<u>155,536</u>	<u>159,032</u>	<u>155,083</u>	<u>160,936</u>
Diluted earnings per share:				
Earnings (loss) from continuing operations	\$ (3.69)	\$ 0.75	\$ (2.77)	\$ 1.65
Loss from discontinued operations	—	—	(0.01)	(0.01)
Net earnings (loss)	<u>\$ (3.69)</u>	<u>\$ 0.75</u>	<u>\$ (2.78)</u>	<u>\$ 1.64</u>
Weighted average diluted shares outstanding (thousands)	<u>155,536</u>	<u>161,035</u>	<u>155,083</u>	<u>162,977</u>

See accompanying notes.

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)
(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Net earnings (loss)	\$ (567)	\$ 127	\$ (413)	\$ 285
Other comprehensive income (loss):				
Foreign currency translation adjustments	(118)	32	(67)	(110)
Pension and other postretirement benefit adjustments, net of tax	27	15	49	51
Change in fair value of derivative instruments, net of tax	5	(1)	1	(7)
Other comprehensive income (loss)	(86)	46	(17)	(66)
Total comprehensive income (loss)	(653)	173	(430)	219
Comprehensive income (loss) attributable to noncontrolling interests	14	1	13	
Comprehensive income (loss) attributable to the Company	<u>\$ (639)</u>	<u>\$ 174</u>	<u>\$ (417)</u>	<u>\$ 219</u>

See accompanying notes.

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)
(Unaudited)

	September 30, 2019	December 31, 2018	September 30, 2018
Assets			
Current assets:			
Cash and cash equivalents	\$ 273	\$ 512	\$ 440
Trade receivables, net of allowance of \$31 million, \$35 million, and \$35 million at September 30, 2019, December 31, 2018 and September 30, 2018	968	549	992
Inventories	1,015	1,018	973
Prepaid expenses and other current assets	278	278	259
Total current assets	<u>2,534</u>	<u>2,357</u>	<u>2,664</u>
Property, plant and equipment, net	3,104	3,085	3,044
Goodwill	1,893	2,513	2,549
Intangibles, net	404	400	422
Other assets	1,613	1,344	1,261
Total assets	<u>\$ 9,548</u>	<u>\$ 9,699</u>	<u>\$ 9,940</u>
Liabilities and Share owners' equity			
Current liabilities:			
Accounts payable	\$ 1,064	\$ 1,321	\$ 1,048
Short-term loans and long-term debt due within one year	376	160	152
Current portion of asbestos-related liabilities	125	160	100
Other liabilities	630	566	604
Other liabilities - discontinued operations			115
Total current liabilities	<u>2,195</u>	<u>2,207</u>	<u>2,019</u>
Long-term debt	5,512	5,181	5,487
Asbestos-related liabilities	342	442	442
Other long-term liabilities	1,063	969	925
Share owners' equity	436	900	1,067
Total liabilities and share owners' equity	<u>\$ 9,548</u>	<u>\$ 9,699</u>	<u>\$ 9,940</u>

See accompanying notes.

OWENS-ILLINOIS, INC.
CONDENSED CONSOLIDATED CASH FLOWS
(Dollars in millions)
(Unaudited)

	Nine months ended	
	September 30,	
	2019	2018
Cash flows from operating activities:		
Net earnings (loss)	\$ (413)	\$ 285
Loss from discontinued operations	1	1
Non-cash charges		
Depreciation and amortization	380	384
Pension expense	24	25
Restructuring, asset impairment and related charges	56	70
Pension settlement charges	13	
Goodwill impairment charge	595	
Cash payments		
Pension contributions	(29)	(26)
Asbestos-related payments	(135)	(40)
Cash paid for restructuring activities	(41)	(21)
Change in components of working capital	(661)	(545)
Other, net (a)	(36)	(34)
Cash provided by (utilized in) continuing operating activities	(246)	99
Cash utilized in discontinued operating activities	(1)	(1)
Total cash provided by (utilized in) operating activities	(247)	98
Cash flows from investing activities:		
Cash payments for property, plant and equipment	(333)	(383)
Acquisitions, net of cash acquired	(157)	
Contributions and advances to joint ventures	(22)	(48)
Net cash proceeds on disposal of assets	2	10
Other, net	5	
Cash utilized in investing activities	(505)	(421)
Cash flows from financing activities:		
Changes in borrowings, net	593	413
Issuance of common stock and other	(3)	1
Treasury shares repurchased	(38)	(107)
Payment of finance fees and note repurchase premiums	(31)	(13)
Distributions to noncontrolling interests	(7)	(9)
Dividends paid	(24)	
Net cash proceeds for hedging activity	28	
Cash provided by financing activities	518	285
Effect of exchange rate fluctuations on cash	(5)	(14)
Decrease in cash	(239)	(52)
Cash at beginning of period	512	492
Cash at end of period	<u>\$ 273</u>	<u>\$ 440</u>

(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 three reportable segments and three operating segments based on its geographic locations: Americas, Europe and Asia Pacific. These three 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 is a non-GAAP financial measure that consists of consolidated earnings from continuing operations before interest income, interest expense, and provision for income taxes and excludes amounts related to certain items that management considers not representative of ongoing operations, as well as certain retained corporate costs. The Company's management uses segment operating profit, in combination with net sales and selected cash flow information, to evaluate performance and to allocate resources. Segment operating profit for reportable segments includes an allocation of some corporate expenses based on both a percentage of sales and direct billings based on the costs of specific services provided.

Financial information for the three and nine months ended September 30, 2019 and 2018 regarding the Company's reportable segments is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net sales:				
Americas	\$ 918	\$ 939	\$ 2,733	\$ 2,777
Europe	588	613	1,834	1,930
Asia Pacific	152	165	455	491
Reportable segment totals	1,658	1,717	5,022	5,198
Other	12	17	41	44
Net sales	<u>\$ 1,670</u>	<u>\$ 1,734</u>	<u>\$ 5,063</u>	<u>\$ 5,242</u>

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Segment operating profit:				
Americas	\$ 123	\$ 158	\$ 380	\$ 458
Europe	79	87	248	260
Asia Pacific	3	10	13	16
Reportable segment totals	205	255	641	734
Items excluded from segment operating profit:				
Retained corporate costs and other	(20)	(24)	(71)	(81)
Charge for goodwill impairment	(595)		(595)	
Restructuring, asset impairment, pension settlement and other charges	(43)		(86)	(73)
Interest expense, net	(83)	(63)	(215)	(199)
Earnings (loss) from continuing operations before income taxes	<u>\$ (536)</u>	<u>\$ 168</u>	<u>\$ (326)</u>	<u>\$ 381</u>

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

	September 30, 2019	December 31, 2018	September 30, 2018
Total assets:			
Americas	\$ 5,241	\$ 5,497	\$ 5,455
Europe	3,053	3,036	3,220
Asia Pacific	1,021	918	999
Reportable segment totals	9,315	9,451	9,674
Other	233	248	266
Consolidated totals	<u>\$ 9,548</u>	<u>\$ 9,699</u>	<u>\$ 9,940</u>

2. Revenue

Revenue is recognized when obligations under the terms of the Company's contracts and related purchase orders with its customers are satisfied. This occurs with the transfer of control of glass containers, which primarily takes place when products are shipped from the Company's manufacturing or warehousing facilities to the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods, which includes estimated provisions for rebates, discounts, returns and allowances. Sales, value added, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. The Company's payment terms are based on customary business practices and can vary by customer type. The term between invoicing and when payment is due is not significant. Also, the Company elected to account for shipping and handling costs as a fulfillment cost at the time of shipment.

For the three and nine month periods ended September 30, 2019 and September 30, 2018, the Company had no material bad debt expense and there were no material contract assets, contract liabilities or deferred contract costs recorded on the Condensed Consolidated Balance Sheet. For the three and nine month periods ended September 30, 2019 and September 30, 2018, revenue recognized from prior periods (for example, due to changes in transaction price) was not material.

The following tables for the three months ended September 30, 2019 and 2018 disaggregates the Company's revenue by customer end use:

	Three months ended September 30, 2019			
	Americas	Europe	Asia Pacific	Total
Alcoholic beverages (beer, wine, spirits)	\$ 591	\$ 409	\$ 106	\$ 1,106
Food and other	192	119	26	337
Non-alcoholic beverages	135	60	20	215
Reportable segment totals	<u>\$ 918</u>	<u>\$ 588</u>	<u>\$ 152</u>	<u>\$ 1,658</u>
Other				12
Net sales				<u>\$ 1,670</u>

	Three months ended September 30, 2018			
	Americas	Europe	Asia Pacific	Total
Alcoholic beverages (beer, wine, spirits)	\$ 582	\$ 419	\$ 121	\$ 1,122
Food and other	209	127	24	360
Non-alcoholic beverages	148	67	20	235
Reportable segment totals	<u>\$ 939</u>	<u>\$ 613</u>	<u>\$ 165</u>	<u>\$ 1,717</u>
Other				17
Net sales				<u>\$ 1,734</u>

The following tables for the nine months ended September 30, 2019 and 2018 disaggregates the Company's revenue by customer end use:

	Nine months ended September 30, 2019			
	Americas	Europe	Asia Pacific	Total
Alcoholic beverages (beer, wine, spirits)	\$ 1,744	\$ 1,315	\$ 320	\$ 3,379
Food and other	564	331	80	975
Non-alcoholic beverages	425	188	55	668
Reportable segment totals	<u>\$ 2,733</u>	<u>\$ 1,834</u>	<u>\$ 455</u>	<u>\$ 5,022</u>
Other				41
Net sales				<u>\$ 5,063</u>

	Nine months ended September 30, 2018			
	Americas	Europe	Asia Pacific	Total
Alcoholic beverages (beer, wine, spirits)	\$ 1,743	\$ 1,383	\$ 361	\$ 3,487
Food and other	594	351	72	1,017
Non-alcoholic beverages	440	196	58	694
Reportable segment totals	<u>\$ 2,777</u>	<u>\$ 1,930</u>	<u>\$ 491</u>	<u>\$ 5,198</u>
Other				44
Net sales				<u>\$ 5,242</u>

3. Inventories

Major classes of inventory at September 30, 2019, December 31, 2018 and September 30, 2018 are as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Finished goods	\$ 836	\$ 849	\$ 808
Raw materials	134	125	119
Operating supplies	45	44	46
	<u>\$ 1,015</u>	<u>\$ 1,018</u>	<u>\$ 973</u>

4. Goodwill

The changes in the carrying amount of goodwill as of September 30, 2018, December 31, 2018, and September 30, 2019 are as follows:

	Europe	Americas	Other	Total
Balance as of September 30, 2018	\$ 889	\$ 1,655	\$ 5	\$ 2,549
Translation effects	(15)	(21)		(36)
Balance as of December 31, 2018	874	1,634	5	2,513
Translation effects	(36)	(9)		(45)
Acquisition related adjustments		20		20
Impairment		(595)		(595)
Balance as of September 30, 2019	<u>\$ 838</u>	<u>\$ 1,050</u>	<u>\$ 5</u>	<u>\$ 1,893</u>

As part of its on-going assessment of goodwill, the Company determined that indicators of impairment had occurred during the the third quarter of 2019. The triggering events were management's update to its long-range plan, which indicated lower projected future cash flows for its North American reporting unit (in the Americas segment) as

compared to the projections used in the most recent goodwill impairment test performed as of October 1, 2018, and a significant reduction in the Company's share price. The Company's business in North America has experienced declining shipments to its alcoholic beverage customers, primarily in the beer category, and this trend is likely to continue into the foreseeable future. These factors, combined with the narrow difference between the estimated fair value and carrying value of the North American reporting unit as of December 31, 2018, resulted in the Company performing an interim impairment analysis during the third quarter of 2019. As a result, the Company recorded a non-cash impairment charge of \$595 million in the third quarter of 2019, which was equal to the excess of the North American reporting unit's carrying value over its fair value. Goodwill related to the Company's other reporting units was determined to not be impaired as a result of the interim impairment analysis.

When performing its test for goodwill impairment, the Company compares the business enterprise value ("BEV") of each reporting unit with its carrying value. The BEV is computed based on estimated future cash flows, discounted at the weighted average cost of capital of a hypothetical third-party buyer. If the BEV is less than the carrying value for any reporting unit, then any excess of the carrying value over the BEV is recorded as an impairment loss. The calculations of the BEV are based on significant internal and external inputs, such as projected future cash flows of the reporting units, discount rates, terminal business value, among other assumptions. The valuation approach utilized by management represents a Level 3 fair value measurement measured on a non-recurring basis in the fair value hierarchy due to the Company's use of unobservable inputs. The Company's projected future cash flows incorporates management's best estimates of the expected future results including, but not limited to, price trends, customer demand, material costs, asset replacement costs and any other known factors.

The remaining balances of goodwill remain susceptible to future impairment charges. If the Company's projected future cash flows were substantially lower, or if the assumed weighted average cost of capital were substantially higher, the testing performed during the third quarter of 2019 may have indicated an impairment in one of the Company's other reporting units or additional impairment of the North American reporting unit's goodwill. Any impairment charges that the Company may take in the future could be material to its consolidated results of operations and financial condition.

The acquisition-related adjustment in 2019 relates to the Nueva Fanal acquisition that the Company completed on June 28, 2019. See Note 19 for additional details.

Goodwill for the Asia Pacific segment is \$0 and net of accumulated impairment losses of \$1,135 million as of September 30, 2018, December 31, 2018, and September 30, 2019.

5. Derivative Instruments

The Company has certain derivative assets and liabilities, which consist of natural gas forwards, foreign exchange option and forward contracts, interest rate swaps and cross-currency swaps. The valuation of these instruments is determined primarily using the income approach, including discounted cash flow analysis on the expected cash flows of each derivative. Natural gas forward rates, foreign exchange rates and interest rates are the significant inputs into the valuation models. The Company also evaluates counterparty risk in determining fair values. 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. 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.

Commodity Forward Contracts Designated as Cash Flow Hedges

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.

An unrecognized gain of \$1 million at September 30, 2019, an unrecognized gain of \$1 million at December 31, 2018 and an unrecognized loss of \$8 million at September 30, 2018 related to the commodity forward contracts were included in Accumulated OCI, and will be reclassified into earnings in the period when the commodity forward contracts expire.

Foreign Exchange Derivative Contracts Not Designated as Hedging Instruments

The Company uses 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 also uses 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.

Cash Flow Hedges of Foreign Exchange Risk

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 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 foreign exchange risk.

During the second quarter of 2019, the Company terminated a portion of its cross-currency swaps, which resulted in a \$15 million cash inflow recognized in the Cash flows from financing activities section of the Condensed Consolidated Cash Flows.

An unrecognized loss of \$19 million at September 30, 2019, an unrecognized loss of \$9 million at December 31, 2018 and an unrecognized loss of \$9 million at September 30, 2018, related to these cross-currency swaps, were included in Accumulated OCI, and will be reclassified into earnings within the next twelve months.

Interest Rate Swaps Designated as Fair Value Hedges

The Company enters into interest rate swaps in order to maintain a capital structure containing targeted amounts of fixed and floating-rate debt and manage interest rate risk. The Company's fixed-to-variable interest rate swaps are 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.

During the second quarter of 2019, the Company terminated a portion of its interest rate swaps, which resulted in a \$13 million cash inflow recognized in the Cash flows from financing activities section of the Condensed Consolidated Cash Flows.

Cash Flow Hedges of Interest Rate Risk

The Company enters into interest rate swaps in order to maintain a capital structure containing targeted amounts of fixed and floating-rate debt and manage interest rate risk. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments. These interest rate swap agreements were used to hedge the variable cash flows associated with variable-rate debt.

An unrecognized loss of \$2 million at September 30, 2019, an unrecognized loss of less than \$1 million at December 31, 2018 and an unrecognized gain of less than \$1 million at September 30, 2018 related to these interest rate swaps, were included in Accumulated OCI, and will be reclassified into earnings within the next twelve months.

Net Investment Hedges

The Company is exposed to fluctuations in foreign exchange rates on investments it holds in non-U.S. subsidiaries and uses cross-currency swaps to partially hedge this exposure.

An unrecognized gain of \$12 million at September 30, 2019, an unrecognized gain of \$4 million at year ended December 31, 2018 and an unrecognized loss of less than \$1 million at September 30, 2018, related to these net investment hedges, were included in Accumulated OCI, and will be reclassified into earnings within the next twelve months.

Balance Sheet Classification

The following table shows the amount and classification (as noted above) of the Company's derivatives at September 30, 2019, December 31, 2018 and September 30, 2018:

	Fair Value of Hedge Assets			Fair Value of Hedge Liabilities		
	September 30, 2019	December 31, 2018	September 30, 2018	September 30, 2019	December 31, 2018	September 30, 2018
Derivatives designated as hedging instruments:						
Commodity forward contracts (a)	\$ 1	\$ 1	\$ 8	\$ -	\$ -	\$ -
Interest rate swaps - fair value hedges (b)	17	6	4		1	11
Cash flow hedges of foreign exchange risk (c)	36	10	11		1	12
Interest rate swaps - cash flow hedges (d)				1		
Net investment hedges (e)	7	6	5		8	5
Total derivatives accounted for as hedges	<u>\$ 61</u>	<u>\$ 23</u>	<u>\$ 28</u>	<u>\$ 1</u>	<u>\$ 10</u>	<u>\$ 28</u>
Derivatives not designated as hedges:						
Foreign exchange derivative contracts (f)	2	2	2	3	2	1
Total derivatives	<u>\$ 63</u>	<u>\$ 25</u>	<u>\$ 30</u>	<u>\$ 4</u>	<u>\$ 12</u>	<u>\$ 29</u>
Current	\$ 34	\$ 19	\$ 18	\$ 3	\$ 3	\$ 1
Noncurrent	29	6	12	1	9	28
Total derivatives	<u>\$ 63</u>	<u>\$ 25</u>	<u>\$ 30</u>	<u>\$ 4</u>	<u>\$ 12</u>	<u>\$ 29</u>

(a) The notional amounts of the commodity forward contracts were \$19 million, \$21 million and \$21 million at September 30, 2019, December 31, 2018 and September 30, 2018, respectively. The maximum maturity dates were in 2020 for all three periods.

(b) The notional amounts of the interest rate swaps designated as fair value hedges were €725 million at September 30, 2019, December 31, 2018 and September 30, 2018, respectively. The maximum maturity dates were in 2024 for all three periods.

(c) The notional amounts of the cash flow hedges of foreign exchange risk were \$1.210 billion, \$587 million and \$590 million at September 30, 2019, December 31, 2018 and September 30, 2018, respectively. The maximum maturity dates were in 2023 for all three periods.

(d) The notional amounts of the interest rate swaps designated as cash flow hedges were \$180 million at September 30, 2019, December 31, 2018 and September 30, 2018, respectively. Maximum maturity dates were 2021 at September 30, 2019 and 2020 at September 30, 2018 and December 31, 2018, respectively.

(e) The notional amounts of the net investment hedges were €160 million and maximum maturity dates were 2020 at September 30, 2019 and December 31, 2018.

(f) The notional amounts of the foreign exchange derivative contracts were \$169 million, \$470 million and \$410 million and maximum maturity dates were 2020, 2019, and 2018 at September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

	Gain (Loss) Recognized in OCI (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (1)	
	Three months ended September 30,		Three months ended September 30,	
	2019	2018	2019	2018
Derivatives designated as hedging instruments:				
Cash Flow Hedges				
Commodity forward contracts (a)	\$ (1)	\$ 1	\$ —	\$ —
Cash flow hedges of foreign exchange risk (b)	(52)	7	(54)	(9)
Cash flow hedges of interest rate risk (c)				
Net Investment Hedges				
Net Investment Hedges	8		2	
	<u>\$ (45)</u>	<u>\$ 8</u>	<u>\$ (52)</u>	<u>\$ (9)</u>
	Gain (Loss) Recognized in OCI (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (1)	
	Nine months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Derivatives designated as hedging instruments:				
Cash Flow Hedges				
Commodity forward contracts (a)	\$ —	\$ 6	\$ (1)	\$ (1)
Cash flow hedges of foreign exchange risk (b)	(50)	8	(66)	1
Cash flow hedges of interest rate risk (c)	(1)			
Net Investment Hedges				
Net Investment Hedges	13		(2)	
	<u>\$ (38)</u>	<u>\$ 14</u>	<u>\$ (69)</u>	<u>\$ —</u>
	Amount of Gain (Loss) Recognized in Other income (expense), net		Amount of Gain (Loss) Recognized in Other income (expense), net	
	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Derivatives not designated as hedges:				
Foreign exchange derivative contracts	\$ 1	\$ —	\$ 8	\$ (1)

(1) Gains and losses reclassified from accumulated OCI and recognized in income are recorded to (a) cost of goods sold, (b) other expense, net or (c) interest expense, net.

6. Restructuring Accruals

Selected information related to the restructuring accruals for the three months ended September 30, 2019 and 2018 is as follows:

	Employee Costs	Asset Impairment	Other Exit Costs	Total Restructuring
Balance at July 1, 2019	\$ 50	\$	\$ 20	\$ 70
Charges	5	17	2	24
Write-down of assets to net realizable value		(17)		(17)
Net cash paid, principally severance and related benefits	(6)		(6)	(12)
Other, including foreign exchange translation			(1)	(1)
Balance at September 30, 2019	<u>\$ 49</u>	<u>\$ —</u>	<u>\$ 15</u>	<u>\$ 64</u>

	Employee Costs	Asset Impairment	Other Exit Costs	Total Restructuring
Balance at July 1, 2018	\$ 71	\$	\$ 16	\$ 87
Net cash paid, principally severance and related benefits	(8)		(1)	(9)
Other, including foreign exchange translation	(1)		(2)	(3)
Balance at September 30, 2018	<u>\$ 62</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ 75</u>

Selected information related to the restructuring accruals for the nine months ended September 30, 2019 and 2018 is as follows:

	Employee Costs	Asset Impairment	Other Exit Costs	Total Restructuring
Balance at January 1, 2019	\$ 47	\$	\$ 22	\$ 69
Charges	32	17	7	56
Write-down of assets to net realizable value		(17)		(17)
Net cash paid, principally severance and related benefits	(30)		(11)	(41)
Other, including foreign exchange translation			(3)	(3)
Balance at September 30, 2019	<u>\$ 49</u>	<u>\$ —</u>	<u>\$ 15</u>	<u>\$ 64</u>

	Employee Costs	Asset Impairment	Other Exit Costs	Total Restructuring
Balance at January 1, 2018	\$ 67	\$	\$ 18	\$ 85
Charges	15	53	2	70
Write-down of assets to net realizable value		(53)		(53)
Net cash paid, principally severance and related benefits	(18)		(3)	(21)
Other, including foreign exchange translation	(2)		(4)	(6)
Balance at September 30, 2018	<u>\$ 62</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ 75</u>

When a decision is made to take restructuring actions, the Company manages and accounts for them programmatically apart from the on-going operations of the business. Information related to major programs is presented separately while minor initiatives are presented on a combined basis. As of September 30, 2019 and 2018, no major restructuring programs were in effect.

In the three and nine months ended September 30, 2019, the Company implemented several discrete restructuring initiatives and recorded restructuring and other charges of \$24 million and \$56 million, respectively. These charges consisted of employee costs such as severance and benefit-related costs, write-down of assets and other exit costs primarily related to a severance program for certain salaried employees at the Company's corporate and America's headquarters and a furnace closure in the Americas. These restructuring charges were discrete actions and are expected to approximate the total cumulative costs for those actions as no significant additional costs are expected to be incurred. For the three months ended September 30, 2019, these charges were recorded to Other expense, net on the Condensed Consolidated Results of Operations. For the nine months ended September 30, 2019, these charges were recorded to

Selling and administrative expense (\$2 million) and Other expense, net (\$54 million) on the Condensed Consolidated Results of Operations. The Company expects that the majority of the remaining cash expenditures related to the accrued employee costs will be paid out by the end of 2019.

In the nine months ended September 30, 2018, the Company implemented several discrete restructuring initiatives and recorded restructuring, asset impairment and other charges of \$70 million. These charges consisted of employee costs, write-down of assets and other exit costs primarily related to a plant closure in the Americas region. These restructuring charges were discrete actions and are expected to approximate the total cumulative costs for those actions as no significant additional costs are expected to be incurred. These restructuring actions primarily relate to capacity curtailments and the Company plans to reallocate the products produced to other facilities. These charges were recorded to Cost of goods sold (\$5 million) and Other expense, net (\$65 million) on the Condensed Consolidated Results of Operations. The Company expects that the majority of the remaining cash expenditures related to the above charges will be paid out by the end of 2019.

The Company's decisions to curtail selected production capacity have resulted in write downs of certain long-lived assets to the extent their carrying value exceeded fair value or fair value less cost to sell. The Company classified the assumptions used to determine the fair value of the impaired assets in the period that the measurement was taken as Level 3 (third party appraisal) in the fair value hierarchy as set forth in the general accounting principles for fair value measurements. For the asset impairments recorded through September 30, 2019 and 2018, the remaining carrying value of the impaired assets was approximately \$0 and \$3 million, respectively.

7. Pension Benefit Plans

The components of the net periodic pension cost for the three months ended September 30, 2019 and 2018 are as follows:

	U.S.		Non-U.S.	
	2019	2018	2019	2018
Service cost	\$ 3	\$ 4	\$ 3	\$ 4
Interest cost	15	15	7	7
Expected asset return	(22)	(25)	(11)	(13)
Amortization of actuarial loss	10	13	3	3
Net periodic pension cost	<u>\$ 6</u>	<u>\$ 7</u>	<u>\$ 2</u>	<u>\$ 1</u>

The components of the net periodic pension cost for the nine months ended September 30, 2019 and 2018 are as follows:

	U.S.		Non-U.S.	
	2019	2018	2019	2018
Service cost	\$ 9	\$ 11	\$ 9	\$ 11
Interest cost	45	45	22	23
Expected asset return	(65)	(74)	(33)	(40)
Amortization of actuarial loss	30	39	7	10
Net periodic pension cost	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 5</u>	<u>\$ 4</u>

In addition to the above, the Company recorded pension settlement charges in the United States of \$1 million and \$13 million for the three and nine months ended September 30, 2019, respectively. These charges were a result of restructuring actions taken for a severance program for salaried employees at the Company's corporate and Americas headquarters.

8. Leases

In the first quarter of 2019, the Company adopted ASC 842, Leases, and selected the modified retrospective transition as of the effective date of January 1, 2019 (the effective date method). Under the effective date method, financial results reported in periods prior to 2019 are unchanged.

The Company determines if an arrangement is a lease at inception. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease

payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses an estimated incremental borrowing rate at the lease commencement date to determine the present value of lease payments when the implicit rate is not readily determinable in the lease. The Company's incremental borrowing rate reflects a fully secured rate based on recent debt issuances, the credit rating of the Company, changes in currency and repayment timing of the lease, as well as publicly available data for instruments with similar characteristics when calculating incremental borrowing rates.

Certain lease agreements include terms with options to extend the lease, however none of these have been recognized in the Company's right-of-use assets or lease liabilities since those options were not reasonably certain to be exercised. Leases with a term of 12 months or less are not recorded on the balance sheet and lease expense for these leases is recognized on a straight-line basis over the lease term. The Company's lease agreements include lease payments that are largely fixed and do not contain material residual value guarantees or variable lease payments and no lease transactions with related parties. For the three and nine months ended September 30, 2019, the Company's lease costs associated with leases with terms less than 12 months or variable lease costs were immaterial. Certain leases include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. The Company's leases do not contain restrictions or covenants that restrict the Company from incurring other financial obligations.

The Company leases warehouses, office buildings and equipment under both operating and finance lease arrangements. Information related to leases is as follows:

	<u>Three months ended September 30, 2019</u>	<u>Nine months ended September 30, 2019</u>
Lease cost		
Finance lease cost:		
Amortization of right-of-use assets (included in Cost of goods sold and Selling and administrative expense)	\$ 2	\$ 5
Interest on lease liabilities (included in Interest expense, net)		1
Operating lease cost (included in Cost of goods sold and Selling and administrative expense)	21	63
Total lease cost	<u>\$ 23</u>	<u>\$ 69</u>

	<u>Nine months ended September 30, 2019</u>
Other information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 63
Operating cash flows from finance leases	1
Financing cash flows from finance leases	5
Right-of-use assets obtained in exchange for new operating lease liabilities	31

September 30, 2019

Supplemental balance sheet information

Operating leases:	
Operating lease right-of-use assets (included in Other assets)	\$ 186
Current operating lease liabilities (included in Other current liabilities)	63
Noncurrent operating lease liabilities (included in Other long-term liabilities)	123
Total operating lease liabilities	\$ 186
Finance leases:	
Property, plant and equipment	\$ 77
Accumulated amortization	(31)
Property, plant and equipment, net	46
Current finance lease liabilities (included in Long-term debt due within one year)	6
Noncurrent finance lease liabilities (included in Long-term debt)	37
Total finance lease liabilities	\$ 43
Weighted-average remaining lease term (in years):	
Operating leases	4.8
Finance leases	6.0
Weighted-average discount rate:	
Operating leases	3.8 %
Finance leases	4.6 %

Maturity of lease liabilities	Operating leases		Finance leases	
2019	\$ 19	\$	2	
2020	64		9	
2021	40		8	
2022	30		8	
2023	19		7	
2024 and thereafter	32		19	
Total lease payments	204		53	
Less: imputed interest	(18)		(10)	
Total lease obligations	<u>\$ 186</u>	<u>\$</u>	<u>43</u>	

Minimum payments related to leases not yet commenced as of September 30, 2019	\$	-	\$	130
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9. Income Taxes

The Company calculates its interim tax provision using the estimated annual effective tax rate (“EAETR”) methodology in accordance with ASC 740-270. The EAETR is applied to the year-to-date ordinary income, exclusive of discrete items. The tax effect of discrete items is then included to arrive at the total reported interim tax provision. The determination of the EAETR is based upon a number of estimates, including the estimated annual pretax ordinary income or loss in each tax jurisdiction in which the Company operates. The tax effects of discrete items are recognized in the tax provision in the quarter they occur in accordance with GAAP. Depending on various factors such as the item’s significance in relation to total income and the rate of tax applicable in the jurisdiction to which it relates, discrete items in any quarter can materially impact the reported effective tax rate. The Company’s annual effective tax rate may be

affected by the mix of earnings in the U.S. and foreign jurisdictions and such factors as changes in tax laws, tax rates or regulations, changes in business, changing interpretation of existing tax laws or regulations, the finalization of tax audits and reviews, as well as other factors. As such, there can be significant volatility in interim tax provisions. The annual effective tax rate differs from the statutory U.S. Federal tax rate of 21% primarily because of varying non-U.S. tax rates.

The effective tax rates for the three and nine months ended September 30, 2019, were lower than the same periods in 2018 primarily due to a goodwill impairment charge recorded in 2019, which was not deductible for income tax purposes, as well as due to the geographic mix of earnings.

The Company is currently under examination in various tax jurisdictions in which it operates, including Bolivia, Brazil, Canada, China, Colombia, France, Germany, Indonesia, Italy and Peru. The years under examination range from 2004 through 2017. The Company has received tax assessments in excess of established reserves. The Company is contesting these tax assessments, and will continue to do so, including pursuing all available remedies such as appeals and litigation, if necessary. The Company believes that adequate provisions for all income tax uncertainties have been made. However, if tax assessments are settled against the Company at amounts in excess of established reserves, it could have a material impact on the Company's results of operations, financial position or cash flows.

10. Debt

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

	September 30, 2019	December 31, 2018	September 30, 2018
Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans	\$ 265	\$ —	\$ —
Term Loans:			
Term Loan A	1,496		
Previous Secured Credit Agreement:			
Revolving Credit Facility:			
Revolving Loans			335
Term Loans:			
Term Loan A		897	908
Other secured debt	454	404	329
Senior Notes:			
6.75%, due 2020 (€250 million at September 30, 2019 and €500 million at December 31, 2018 and September 30, 2018)	273	570	580
4.875%, due 2021 (€330 million)	360	376	382
5.00%, due 2022	498	497	497
4.00%, due 2023	307	306	306
5.875%, due 2023	690	688	687
3.125%, due 2024 (€725 million)	818	825	828
6.375%, due 2025	296	295	295
5.375%, due 2025	298	297	297
Finance leases	43	45	48
Other	16	14	16
Total long-term debt	5,814	5,214	5,508
Less amounts due within one year	302	33	21
Long-term debt	\$ 5,512	\$ 5,181	\$ 5,487

The Company presents debt issuance costs in the balance sheet as a deduction of the carrying amount of the related debt liability.

On June 25, 2019, certain of the Company's subsidiaries entered into a new Senior Secured Credit Facility (the "Agreement"), which amended and restated the previous credit agreement (the "Previous Agreement"). The proceeds

from the Agreement were used to repay all outstanding amounts under the Previous Agreement. The Company recorded \$2 million of additional interest charges for third party fees and the write-off of unamortized fees in the second quarter of 2019.

The Agreement provides for up to \$3.0 billion of borrowings pursuant to term loans and revolving credit facilities. The term loans mature, and the revolving credit facilities terminate, in June 2024. At September 30, 2019, the Agreement includes a \$300 million revolving credit facility, a \$1.2 billion multicurrency revolving credit facility, and a \$1.5 billion term loan A facility (\$1,496 million net of debt issuance costs). At September 30, 2019, the Company had unused credit of \$1.2 billion available under the Agreement. The weighted average interest rate on borrowings outstanding under the Agreement at September 30, 2019 was 3.26%.

The Agreement contains various covenants that restrict, among other things and subject to certain exceptions, the ability of the Company to incur certain indebtedness and 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 Agreement also contains one financial maintenance covenant, a Total Leverage Ratio (the "Leverage Ratio"), that requires the Company not to exceed a ratio of 5.0x calculated by dividing consolidated total debt, less cash and cash equivalents, by Consolidated EBITDA, with such Leverage Ratio decreasing to 4.50x for the quarter ending December 31, 2020 and thereafter, as defined and described in the Agreement. The maximum Leverage Ratio is subject to an increase of 0.5x for (i) any fiscal quarter during which certain qualifying acquisitions (as specified in the Agreement) are consummated and (ii) the following three fiscal quarters, provided that the Leverage Ratio shall not exceed 5.0x. The Leverage Ratio could restrict the ability of the Company to undertake additional financing or acquisitions to the extent that such financing or acquisitions would cause the Leverage Ratio to exceed the specified maximum.

Failure to comply with these covenants and other customary restrictions could result in an event of default under the Agreement. In such an event, the Company could not request borrowings under the revolving facilities, and all amounts outstanding under the Agreement, together with accrued interest, could then be declared immediately due and payable. Upon the occurrence and for the duration of a payment event of default, an additional default interest rate equal to 2.0% per annum will apply to all overdue obligations under the Agreement. If an event of default occurs under the Agreement and the lenders cause all of the outstanding debt obligations under the Agreement to become due and payable, this would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. As of September 30, 2019, the Company was in compliance with all covenants and restrictions in the Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Agreement will not be adversely affected by the covenants and restrictions.

The Leverage Ratio also determines pricing under the Agreement. The interest rate on borrowings under the Agreement is, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Agreement, plus an applicable margin. The applicable margin is linked to the Leverage Ratio. The margins range from 1.00% to 1.50% for Eurocurrency Loans and from 0.00% to 0.50% for Base Rate Loans. In addition, a commitment fee is payable on the unused revolving credit facility commitments ranging from 0.20% to 0.30% per annum linked to the Leverage Ratio.

Obligations under the 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. Such obligations 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 obligations, of stock of certain foreign subsidiaries. All obligations under the Agreement are guaranteed by certain domestic subsidiaries of the Company, and certain foreign obligations under the Agreement are guaranteed by certain foreign subsidiaries of the Company.

In July 2019, the Company's wholly owned subsidiary, OI European Group B.V., redeemed €250 million aggregate principal amount of its outstanding 6.75% senior notes due 2020 (the "Notes"). Following the redemption, €250 million aggregate principal amount of the Notes remain outstanding at September 30, 2019. The Company recorded \$24 million of additional interest charges for note repurchase premiums and the write-off of unamortized finance fees related to this redemption.

In order to maintain a capital structure containing appropriate amounts of fixed and floating-rate debt, the Company has entered into a series of interest rate swap agreements. These interest rate swap agreements were accounted for as either fair value hedges or cash flow hedges (see Note 5).

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 carrying amounts reported for 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, 2019 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 (€250 million)	\$ 273	\$ 106.20	\$ 290
4.875%, due 2021 (€330 million)	361	106.99	386
5.00%, due 2022	500	103.38	517
5.875%, due 2023	700	106.66	747
4.00%, due 2023	310	100.79	312
3.125%, due 2024 (€725 million)	793	105.41	836
6.375%, due 2025	300	106.93	321
5.375%, due 2025	300	103.84	312

11. Contingencies

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 pipe and block insulation material containing asbestos. The Company sold its insulation business unit in April 1958. The Company receives claims from individuals alleging bodily injury and death as a result of exposure to asbestos from this product ("Asbestos Claims"). Some Asbestos Claims are brought as personal injury lawsuits that typically allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and, in some cases, punitive damages.

Predominantly, however, Asbestos Claims are presented to the Company under administrative claims-handling agreements, which the Company has in place with many plaintiffs' counsel throughout the country ("Administrative Claims"). Administrative Claims require evaluation and negotiation regarding whether particular claimants qualify under the criteria established by the related claims-handling agreements. The criteria for Administrative 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. Plaintiffs' counsel present, and the Company negotiates, Administrative Claims under these various agreements in differing quantities, at different times, and under a variety of conditions.

As of September 30, 2019, the Company had approximately 890 asbestos lawsuits pending. These pending lawsuits do not include an estimate of potential Administrative Claims that may be presented under a claims-handling agreement due to the uncertainties around presentation timing, quantities, or qualification rates. The Company considers Administrative Claims to be filed and disposed when they are accepted for payment.

The lack of uniform rules in lawsuit pleading practice, technical pleading requirements in some jurisdictions, local rules, and other factors cause considerable variation in the specific amounts of monetary damages asserted. In the Company's experience, the monetary relief alleged in a lawsuit bears little relationship to an Asbestos Claim's merits or its disposition value. Rather, several variables, including but not limited to, the type and severity of the asbestos disease, 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; the applicable law; and the law firm representing the claimant, affect the value.

The Company has also been a defendant in other Asbestos Claims involving maritime workers, medical monitoring, co-defendants' third-party actions, and property damage allegations. Based upon its experience, the Company believes that these categories of Asbestos Claims will not involve any material liability. Therefore, they are not included in the description of pending or disposed matters.

Since receiving its first Asbestos Claim, as of September 30, 2019, the Company in the aggregate has disposed of approximately 401,100 Asbestos Claims at an average indemnity payment of approximately \$10,000 per claim. During the three months ended September 30, 2019, the Company disposed of approximately 300 Asbestos Claims. 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 2018, 2017, and 2016 were \$105 million, \$110 million, and \$125 million, respectively. The Company's cash payments per claim disposed (inclusive of legal costs) were approximately \$86,000, \$83,000 and \$71,000 for the years ended December 31, 2018, 2017, and 2016, respectively.

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 claims-handling agreements generally has reduced the number of claims that would otherwise have been received by the Company in the tort system. In addition, changes in jurisdictional dynamics, legislative acts, asbestos docket management and procedures, the substantive law, the co-defendant pool, and other external factors have affected lawsuit volume, claim volume, qualification rates, claim values, and related matters. Collectively, these variables 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 \$5.0 billion through September 30, 2019, 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, changes in mortality rates, the inherent uncertainty of future disease incidence and claiming patterns against the Company, the significant expansion of the types of 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 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 Asbestos Claims already asserted and those Asbestos Claims the Company believes will be asserted.

The Company conducts an annual comprehensive legal review of its asbestos-related liabilities and costs 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 Asbestos Claims' 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 Asbestos Claims likely to be asserted against the Company. The Company uses this estimate, along with an estimation of disposition costs and related legal costs, as inputs to develop its best estimate of its 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) Asbestos Claims will continue to be resolved primarily under the Company's administrative claims-handling 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 Claims.

For the years ended December 31, 2018 and 2017, the Company concluded that accruals in the amounts of \$602 million and \$582 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 \$125 million, \$0 million and \$0 million for the years ended December 31, 2018, 2017 and 2016, respectively. As previously disclosed, the Company anticipated that adjustments to its asbestos-related accruals were possible given the inherent uncertainties involved in asbestos litigation. In the fourth quarter of 2018, the Company determined that it was advantageous to accelerate the disposition of certain claims in light of additional information the Company obtained about higher estimated future claim volumes and values in certain of the affected discrete streams of potential liability. Factors impacting the increased likelihood of these additional losses included changes in the law, procedure, the expansion of judicial resources in certain jurisdictions, and renewed attention to dockets of non-mesothelioma cases. The Company also obtained new information about other Asbestos Claims, which had the effect of reducing its asbestos-related liability. The combined effect of these items resulted in a change in estimate of the Company's asbestos-related liability.

The Company believes that it is reasonably possible that it will incur a loss for its asbestos-related liabilities in excess of the amount currently recognized, which was \$602 million as of December 31, 2018. The Company estimated that reasonably possible losses could result in asbestos-related liabilities of approximately \$722 million. This estimate of additional reasonably possible loss reflects a qualitative judgment regarding the nature of contingencies that could impact future Asbestos Claims and legal costs, which include, but are not limited to, successful attempts by plaintiffs to challenge existing legal barriers to entry, enact plaintiff-oriented procedural rules or liability or damage-related legislation, establish new theories of liability, revive long-dormant inventories of non-mesothelioma cases, or leverage changing jurisdictional dynamics and a changing litigation environment to increase the volume of Asbestos Claims presented or per-claim indemnity values. However, it is also possible that the ultimate amount of asbestos-related liabilities could be above this estimate.

The Company expects a significant majority of the total number of Asbestos Claims to be received in the next five to seven 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. The Company may continue to experience increased year-over-year variability with regard to the annual quantity of Asbestos Claims presented to and disposed by the Company. This increased variability, jurisdictional dynamics, a changing litigation environment, the size of the remaining pool of claimants, and the expected increase in mortality over the next five to seven years may present the Company with further opportunities to accelerate disposition of discrete parts of its claimant pool. These influences may create increased variability in the annual cash payments year-over-year.

The Company's asbestos-related liability is based on a projection of new Asbestos Claims that will eventually be filed against the Company and the estimated average disposition cost of these claims and related legal costs. Changes in these projections, and estimates, as well as changes in the significant assumptions noted above, have the potential to significantly impact the estimation of the Company's asbestos-related liability.

Other Matters

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 probable that both 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.

12. Share Owners' Equity

The activity in share owners' equity for the three months ended September 30, 2019 and 2018 is as follows:

	Share Owners' Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings (Loss)	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners' Equity
Balance on July 1, 2019	\$ 2	3,136	(742)	470	(1,891)	115	\$ 1,090
Reissuance of common stock (0.01 million shares)		(1)	3				2
Stock compensation (0.01 million shares)		4					4
Net earnings (loss)				(575)		8	(567)
Other comprehensive loss					(64)	(22)	(86)
Dividends declared				(7)			(7)
Balance on September 30, 2019	<u>\$ 2</u>	<u>\$ 3,139</u>	<u>\$ (739)</u>	<u>\$ (112)</u>	<u>\$ (1,955)</u>	<u>\$ 101</u>	<u>\$ 436</u>

	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 July 1, 2018	\$ 2	3,115	(642)	232	(1,929)	120	\$ 898
Reissuance of common stock (0.1 million shares)			3				3
Treasury shares purchased (0.7 million shares)			(12)				(12)
Stock compensation (0.05 million shares)		5					5
Net earnings				120		7	127
Other comprehensive income (loss)					54	(8)	46
Balance on September 30, 2018	<u>\$ 2</u>	<u>\$ 3,120</u>	<u>\$ (651)</u>	<u>\$ 352</u>	<u>\$ (1,875)</u>	<u>\$ 119</u>	<u>\$ 1,067</u>

The activity in share owners' equity for the nine months ended September 30, 2019 and 2018 is as follows:

	Share Owners' Equity of the Company						
	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings (Loss)	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Share Owners' Equity
Balance on January 1, 2019	\$ 2	3,124	(705)	333	(1,968)	114	\$ 900
Issuance of common stock (0.1 million shares)		2					2
Reissuance of common stock (0.2 million shares)		(2)	9				7
Treasury shares purchased (2.1 million shares)			(38)				(38)
Stock compensation (1.7 million shares)		15					15
Net earnings (loss)				(430)		17	(413)
Other comprehensive income (loss)					13	(30)	(17)
Dividends declared				(15)			(15)
Other			(5)				(5)
Balance on September 30, 2019	<u>\$ 2</u>	<u>\$ 3,139</u>	<u>\$ (739)</u>	<u>\$ (112)</u>	<u>\$ (1,955)</u>	<u>\$ 101</u>	<u>\$ 436</u>

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, 2018	\$ 2	3,099	(551)	85	(1,827)	119	\$ 927
Reissuance of common stock (0.3 million shares)			7				7
Treasury shares purchased (5.4 million shares)			(107)				(107)
Stock compensation (0.7 million shares)		21					21
Net earnings				267		18	285
Other comprehensive loss					(48)	(18)	(66)
Balance on September 30, 2018	<u>\$ 2</u>	<u>\$ 3,120</u>	<u>\$ (651)</u>	<u>\$ 352</u>	<u>\$ (1,875)</u>	<u>\$ 119</u>	<u>\$ 1,067</u>

During the three months ended September 30, 2018, the Company purchased 682,028 shares of its common stock for approximately \$12 million. During the nine months ended September 30, 2019 and 2018, the Company purchased 2,064,652 and 5,358,150 shares of its common stock for approximately \$8 million and \$107 million, respectively. The stock purchases were pursuant to the authorization by its Board of Directors that had approximately \$512 million in remaining purchase authority as of September 30, 2019.

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, 2019	December 31, 2018	September 30, 2018
Shares of common stock issued (including treasury shares)	188,442	186,576	186,440
Treasury shares	32,812	30,918	27,741

13. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the three months ended September 30, 2019 and 2018 is as follows:

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments	Employee Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance on July 1, 2019	\$ (830)	(22)	(1,039)	\$ (1,891)
Change before reclassifications	(96)	54	8	(34)
Amounts reclassified from accumulated other comprehensive income (loss)		(52)(a)	12 (b)	(40)
Translation effect		2	7	9
Tax effect		1		1
Other comprehensive income (loss) attributable to the Company	(96)	5	27	(64)
Balance on September 30, 2019	<u>\$ (926)</u>	<u>\$ (17)</u>	<u>\$ (1,012)</u>	<u>\$ (1,955)</u>

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments	Employee Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance on July 1, 2018	\$ (856)	\$ (18)	\$ (1,055)	\$ (1,929)
Change before reclassifications	40	(11)	(1)	28
Amounts reclassified from accumulated other comprehensive income (loss)		9 (a)	16 (b)	25
Translation effect		1		1
Other comprehensive income (loss) attributable to the Company	40	(1)	15	54
Balance on September 30, 2018	<u>\$ (816)</u>	<u>\$ (19)</u>	<u>\$ (1,040)</u>	<u>\$ (1,875)</u>

(a) Amount is included in Cost of goods sold and Other expense, net on the Condensed Consolidated Results of Operations (see Note 5 for additional information).

(b) Amount is included in the computation of net periodic pension cost (see Note 7 for additional information) and net postretirement benefit cost.

The activity in accumulated other comprehensive loss for the nine months ended September 30, 2019 and 2018 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, 2019	\$ (889)	(18)	(1,061)	\$ (1,968)
Change before reclassifications	(37)	61	6	30
Amounts reclassified from accumulated other comprehensive income (loss)		(69)(a)	37 (b)	(32)
Translation effect		5	6	11
Tax effect		4		4
Other comprehensive income (loss) attributable to the Company	(37)	1	49	13
Balance on September 30, 2019	<u>\$ (926)</u>	<u>\$ (17)</u>	<u>\$ (1,012)</u>	<u>\$ (1,955)</u>

	Net Effect of Exchange Rate Fluctuations	Change in Certain Derivative Instruments	Employee Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance on January 1, 2018	\$ (724)	(12)	(1,091)	\$ (1,827)
Change before reclassifications	(92)	(7)	(8)	(107)
Amounts reclassified from accumulated other comprehensive income (loss)		(a)	49 (b)	49
Translation effect			10	10
Other comprehensive income (loss) attributable to the Company	(92)	(7)	51	(48)
Balance on September 30, 2018	<u>\$ (816)</u>	<u>\$ (19)</u>	<u>\$ (1,040)</u>	<u>\$ (1,875)</u>

- (a) Amount is included in Cost of goods sold and Other expense, net on the Condensed Consolidated Results of Operations (see Note 5 for additional information).
- (b) Amount is included in the computation of net periodic pension cost (see Note 7 for additional information) and net postretirement benefit cost.

14. Other Expense (Income), Net

Other expense (income), net for the three and nine months ended September 30, 2019 and 2018 included the following:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Impairment of goodwill (see Note 4)	\$ 595	\$	\$ 595	\$
Restructuring, asset impairment and other charges	31		69	68
Pension settlement charges	11		13	
Foreign currency exchange loss	3	4	6	6
Intangible amortization expense	11	10	31	30
Royalty income	(3)	(3)	(10)	(9)
Non-income tax gain		(13)		(13)
Other expense (income), net	(3)	(18)	5	(33)
	<u>\$ 645</u>	<u>\$ (20)</u>	<u>\$ 709</u>	<u>\$ 49</u>

15. Earnings Per Share

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

	Three months ended September 30,	
	2019	2018
Numerator:		
Net earnings (loss) attributable to the Company	\$ (575)	\$ 120
Denominator (in thousands):		
Denominator for basic earnings per share-weighted average shares outstanding	155,536	159,032
Effect of dilutive securities:		
Stock options and other		2,003
Denominator for diluted earnings per share-adjusted weighted average shares outstanding	<u>155,536</u>	<u>161,035</u>
Basic earnings per share:		
Earnings (loss) from continuing operations	\$ (3.69)	\$ 0.75
Loss from discontinued operations		
Net earnings (loss)	<u>\$ (3.69)</u>	<u>\$ 0.75</u>
Diluted earnings per share:		
Earnings (loss) from continuing operations	\$ (3.69)	\$ 0.75
Loss from discontinued operations		
Net earnings (loss)	<u>\$ (3.69)</u>	<u>\$ 0.75</u>

Options to purchase 2,446,932 and 1,794,634 weighted average shares of common stock, which were outstanding during the three months September 30, 2019 and 2018, 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. For the three months ended September 30, 2019, diluted earnings per share of common stock was equal to basic earnings per share of common stock due to the loss from continuing operations.

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Numerator:		
Net earnings (loss) attributable to the Company	\$ (430)	\$ 267
Denominator (in thousands):		
Denominator for basic earnings per share-weighted average shares outstanding	155,083	160,936
Effect of dilutive securities:		
Stock options and other		2,041
Denominator for diluted earnings per share-adjusted weighted average shares outstanding	<u>155,083</u>	<u>162,977</u>
Basic earnings per share:		
Earnings (loss) from continuing operations	\$ (2.77)	\$ 1.67
Loss from discontinued operations	(0.01)	(0.01)
Net earnings (loss)	<u>\$ (2.78)</u>	<u>\$ 1.66</u>
Diluted earnings per share:		
Earnings (loss) from continuing operations	\$ (2.77)	\$ 1.65
Loss from discontinued operations	(0.01)	(0.01)
Net earnings (loss)	<u>\$ (2.78)</u>	<u>\$ 1.64</u>

Options to purchase 1,848,974 and 1,854,809 weighted average shares of common stock, which were outstanding during the nine months ended September 30, 2019 and 2018, 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. For the nine months ended September 30, 2019, diluted earnings per share of common stock was equal to basic earnings per share of common stock due to the loss from continuing operations.

16. Supplemental Cash Flow Information

Income taxes paid (received) in cash were as follows:

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
U.S.	\$ —	\$ 9
Non-U.S.	81	87
Total income taxes paid in cash	<u>\$ 81</u>	<u>\$ 96</u>

Interest paid in cash, including note repurchase premiums, for the nine months ended September 30, 2019 and 2018 was \$224 million and \$188 million, respectively. Cash interest for the nine months ended September 30, 2019 included \$23 million of note repurchase premiums.

The Company uses various factoring programs to sell certain receivables to financial institutions as part of managing its cash flows. At September 30, 2019, December 31, 2018 and September 30, 2017, the amount of receivables sold by the Company was \$369 million, \$600 million and \$289 million, respectively. For the nine months ended September 30, 2019 and 2018, the Company reduced the use of its factoring programs compared to the most recent respective year end periods and this resulted in a higher use of working capital, and corresponding decrease to cash from operating activities, of approximately \$231 million and \$165 million, respectively.

17. Discontinued Operations

On December 6, 2018, an ad hoc committee for the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") rejected the request by the Bolivarian Republic of Venezuela ("Venezuela") to annul the award issued by an ICSID tribunal in favor of OI European Group B.V. ("OIEG") related to the 2010 expropriation of OIEG's

majority interest in two plants in Venezuela (the “Award”). The annulment proceeding with respect to the Award is now concluded.

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. 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 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.

As a result of the favorable ruling by an ICSID ad hoc committee rejecting Venezuela’s request to annul the OIEG Award, and thereby concluding those annulment proceedings, the Company recognized a \$115 million gain from discontinued operations in the fourth quarter of 2018.

A separate arbitration involving other subsidiaries of the Company was initiated in 2012 to obtain compensation primarily for third-party minority shareholders’ lost interests in the two expropriated plants. However, on November 13, 2017, ICSID issued an award that dismissed this arbitration on jurisdiction grounds. In March 2018, the two subsidiaries of the Company submitted to ICSID an application to annul the November 13, 2017 award, and a hearing on the annulment was heard by an ad hoc committee of ICSID in July 2019; no decision has been rendered yet.

The loss from discontinued operations, which primarily reflects the ongoing costs for the Venezuelan expropriation, was approximately \$1 million for each of the nine month periods ended September 30, 2019 and 2018.

18. New Accounting Pronouncement

Leases - On January 1, 2019, the Company adopted ASU No. 2016-02, “Leases”. Under this guidance, lessees are 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 adoption of ASU No. 2016-02 had a significant impact on the Company’s consolidated balance sheet due to the recognition of approximately \$214 million of lease liabilities with corresponding right-of-use assets for operating leases as of January 1, 2019. The adoption of ASU No. 2016-02 had no material impact on the Company’s retained earnings, consolidated results of operations or consolidated cash flows.

The Company elected the package of practical expedients relating to the identification, classification and initial direct costs of leases commencing before the effective date, and the transitional practical expedient for the treatment of existing land easements; however, the Company did not elect the hindsight transitional practical expedient. The Company has also elected the practical expedient to not account for lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) separately from the nonlease components (e.g., common-area maintenance costs). See Note 8, Leases, for additional information.

Credit Losses - In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This guidance also requires enhanced disclosures regarding significant estimates and judgments used in estimating credit losses. The new guidance is effective for the Company on January 1, 2020. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU No. 2016-13 is not expected to have a material effect on the Company’s consolidated financial statements.

Income Taxes - In January 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which gives entities the option to reclassify to retained earnings the tax effects resulting from the U.S. Tax Cuts and Jobs Act (the "Act") related to items in Accumulated other comprehensive income ("AOCI") that the FASB refers to as having been stranded in AOCI. The new guidance may be applied retrospectively to each period in which the effect of the Act is recognized in the period of adoption. The Company must adopt this guidance for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company adopted this standard in the first quarter of 2019. The Company has not elected to reclassify income tax effects of the Act from AOCI to retained earnings.

Disclosure Requirements for Fair Value Measurement - In August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement" which modifies the fair value disclosure requirements. Application of the standard is required for annual periods beginning after December 15, 2019. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

Disclosure Requirements for Defined Benefit Plans - In August 2018, the FASB issued ASU No. 2018-14, "Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans" which modifies the defined benefit plan disclosure requirements. Application of the standard is required for annual periods beginning after December 15, 2020. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

19. Business Combinations

On June 28, 2019, the Company completed the acquisition of Nueva Fábrica Nacional de Vidrio, S. de R.L. de C.V. ("Nueva Fanal") from Grupo Modelo, an affiliate of Anheuser-Busch InBev SA/NV for a total purchase price of approximately \$195 million. In the second quarter of 2019, the Company paid approximately \$157 million in cash toward this acquisition and the remaining approximately \$42 million is expected to be paid by the end of 2019, subject to a working capital adjustment. The Company financed this acquisition with debt. The Nueva Fanal facility is located near Mexico City, Mexico. Currently, this plant has four furnaces to produce and supply approximately 300,000 tons of glass containers annually for Grupo Modelo brands, such as Corona, for local and global export markets. Further, the Company has entered into a long-term agreement to continue to supply glass to Grupo Modelo. This acquisition increases the Company's presence in the Mexican glass packaging market.

Nueva Fanal's operating results are included in the Company's unaudited condensed consolidated financial statements from the acquisition date as part of the Americas segment. The acquisition qualifies as a business combination and will be accounted for using the acquisition method of accounting.

The total purchase price will be allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values. The purchase agreement contains customary provisions for working capital adjustments, which the Company expects to resolve with the seller by the end of 2019. The aggregate purchase price was preliminarily allocated to the Company's balance sheet as of September 30, 2019 and has not yet been finalized because the Company has not yet completed its review of the asset and liability values and related amortization and depreciation periods. The Company expects that the purchase price allocation process will be completed no later than the first quarter of 2020. The following table summarizes the preliminary estimates of fair value of the assets and liabilities assumed on June 28, 2019 and subsequent adjustments identified through the ongoing purchase price allocation process and recorded through the measurement period:

	June 28, 2019	Measurement Period Adjustments	September 30, 2019
Accounts receivable	\$ 42		42
Inventory	17		17
Long lived assets (includes PP&E and intangibles)	164	19	183
Total assets	223	19	242
Accounts payable	25		25
Accrued liabilities	3		3
Deferred tax liabilities	—	19	19
Net assets acquired	\$ 195	—	195

This acquisition did not meet the thresholds for a significant acquisition and therefore no pro forma financial information is presented.

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. Segment operating profit is not, however, intended as an alternative measure of operating results as determined in accordance with U.S. GAAP and is not necessarily comparable to similarly titled measures used by other companies.

Financial information for the three and nine months ended September 30, 2019 and 2018 regarding the Company's reportable segments is as follows (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net Sales:				
Americas	\$ 918	\$ 939	\$ 2,733	\$ 2,777
Europe	588	613	1,834	1,930
Asia Pacific	152	165	455	491
Reportable segment totals	1,658	1,717	5,022	5,198
Other	12	17	41	44
Net Sales	\$ 1,670	\$ 1,734	\$ 5,063	\$ 5,242
	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Segment operating profit:				
Americas	\$ 123	\$ 158	\$ 380	\$ 458
Europe	79	87	248	260
Asia Pacific	3	10	13	16
Reportable segment totals	205	255	641	734
Items excluded from segment operating profit:				
Retained corporate costs and other	(20)	(24)	(71)	(81)
Charge for goodwill impairment	(595)		(595)	
Restructuring, asset impairment, pension settlement and other charges	(43)		(86)	(73)
Interest expense, net	(83)	(63)	(215)	(199)
Earnings (loss) from continuing operations before income taxes	(536)	168	(326)	381
Provision for income taxes	(31)	(41)	(86)	(95)
Earnings (loss) from continuing operations	(567)	127	(412)	286
Loss from discontinued operations			(1)	(1)
Net earnings (loss)	(567)	127	(413)	285
Net earnings attributable to noncontrolling interests	(8)	(7)	(17)	(18)
Net earnings (loss) attributable to the Company	\$ (575)	\$ 120	\$ (430)	\$ 267
Net earnings (loss) from continuing operations attributable to the Company	\$ (575)	\$ 120	\$ (429)	\$ 268

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

Executive Overview — Quarters ended September 30, 2019 and 2018

Third Quarter 2019 Highlights

- Net sales in the third quarter of 2019 were down nearly 4% with the same quarter in 2018, primarily due to lower organic shipments and the unfavorable effects of changes in foreign currency exchange rates, partially offset by incremental sales from the Nueva Fanal acquisition and higher prices.
- Segment operating profit for reportable segments was down 20% in the third quarter of 2019 compared to the third quarter of 2018, primarily driven by lower segment profit in the Americas.
- Goodwill impairment charge of \$595 million related to the Americas segment.
- The Company advanced its tactical and strategic portfolio review initiative which now includes a strategic evaluation of its Australia and New Zealand operations.

Net sales for the third quarter of 2019 were \$64 million lower than the third quarter of the prior year primarily due to the unfavorable effect of changes in foreign currency exchange rates and lower organic shipments, partially offset by incremental sales from the Nueva Fanal acquisition and higher prices.

Loss from continuing operations before income taxes was \$536 million in the third quarter of 2019 compared to earnings from continuing operations before income taxes of \$168 million in the third quarter of 2018, a decrease of \$704 million. This decrease was primarily due to charges related to a goodwill impairment, restructuring activities and note repurchase premiums recorded in the third quarter of 2019, as well as lower segment operating profit. Segment operating profit for reportable segments for the third quarter of 2019 was \$50 million lower than the third quarter of the prior year. While the benefit of higher selling prices more than offset cost inflation, sluggish sales volumes and higher operating costs impacted the quarter. Increased operating costs reflected temporary capacity curtailments to align supply with lower than expected demand, as well as the nonoccurrence of several gains that were recorded in the third quarter of 2018.

Net interest expense for the third quarter of 2019 increased \$20 million compared to the third quarter of 2018. Net interest expense in the third quarter of 2019 included \$24 million of note repurchase premiums and the write-off of deferred finance fees that related to debt that was repaid prior to its maturity.

For the third quarter of 2019, the Company recorded a net loss from continuing operations attributable to the Company of \$575 million, or \$3.69 per share (diluted), compared to net earnings from continuing operations attributable to the Company of \$120 million, or \$0.75 per share (diluted), in the third quarter of 2018. Earnings in the third quarter of 2019 included items that management considered not representative of ongoing operations. These items decreased earnings attributable to the Company by \$659 million, or \$4.23 per share, in the third quarter of 2019.

Results of Operations — Third Quarter of 2019 compared with third Quarter of 2018

Net Sales

The Company's net sales in the third quarter of 2019 were \$1,670 million compared with \$1,734 million for the third quarter of 2018, a decrease of \$64 million, or nearly 4%. Unfavorable foreign currency exchange rates decreased sales by \$63 million in the third quarter of 2019 compared to the prior year quarter as the U.S. dollar strengthened against the Australian dollar, Brazilian real, Colombian peso, Mexican peso and the Euro. Higher selling prices increased net sales by \$48 million in the quarter. Total glass container shipments, in tonnes, were down approximately 1% in the third quarter of 2019 compared to the prior year quarter. Excluding the impact of the Nueva Fanal acquisition, glass container shipments were down approximately 3.5% in the third quarter of 2019 compared to the prior year quarter and reflected generally sluggish demand given increased macroeconomic uncertainty. The net impact of lower organic sales and the additional sales from the Nueva Fanal acquisition resulted in a \$44 million reduction to net sales in the third quarter of 2019 compared to the prior year.

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

Reportable segment net sales - 2018		\$	1,717
Price	\$	48	
Sales volume and mix		(44)	
Effects of changing foreign currency rates		(63)	
Total effect on reportable segment net sales			(59)
Reportable segment net sales - 2019		\$	<u>1,658</u>

Americas: Net sales in the Americas in the third quarter of 2019 were \$918 million compared with \$939 million for the third quarter of 2018, a decrease of \$21 million, or 2%. Higher selling prices increased net sales by \$30 million in the third quarter of 2019. The unfavorable effects of foreign currency exchange rate changes decreased net sales \$21 million in the third quarter of 2019 compared to 2018. Total glass container shipments in the region were down nearly 1% in the third quarter of 2019 compared to the prior year quarter. Excluding the impact of the Nueva Fanal acquisition in the region, lower shipments to alcoholic beverage customers resulted in a 5% decline in glass container shipments. Year over year shipments in Colombia were strong compared to the third quarter in the prior year, however, shipments in Mexico (excluding the acquisition) were lower in the quarter. In the U.S., sales volumes were primarily impacted by lower shipments to alcoholic beverage customers, largely due to ongoing trends in beer shipments, and lower shipments to non-alcoholic beverage customers. The net impact of lower organic sales in the region and the additional sales from the Nueva Fanal acquisition resulted in a \$30 million reduction to net sales in the third quarter of 2019 compared to the prior year.

Europe: Net sales in Europe in the third quarter of 2019 were \$588 million compared with \$613 million for the third quarter of 2018, a decrease of \$25 million, or 4%. Unfavorable foreign currency exchange rates impacted the region by approximately \$34 million in the third quarter of 2019 as the Euro weakened in relation to the U.S. dollar. Glass container shipments in the third quarter of 2019 were down approximately 1% compared to the same quarter in 2018, primarily driven by lower food and non-alcoholic beverage bottle shipments. This resulted in \$8 million of lower net sales and reflected generally soft demand given increased macroeconomic uncertainty. Selling prices in Europe increased net sales by \$17 million in the third quarter of 2019 compared to the same period in the prior year.

Asia Pacific: Net sales in Asia Pacific in the third quarter of 2019 were \$152 million compared with \$165 million for the third quarter of 2018, a decrease of \$13 million, or 8%. Glass container shipments in the third quarter of 2019 were down approximately 3% with the prior year period and were primarily due to lower shipment levels in China reflecting the impact of trade tensions. This resulted in \$6 million of lower sales in the third quarter of 2019 compared to the prior year quarter. The effects of foreign currency exchange rate changes in the current year quarter decreased net sales by \$8 million. Selling prices in the region increased net sales by \$1 million in the third quarter of 2019 compared to the same period in the prior year.

Earnings from Continuing Operations before Income Taxes and Segment Operating Profit

Loss from continuing operations before income taxes was \$536 million in the third quarter of 2019 compared to earnings from continuing operations before income taxes of \$168 million in the third quarter of 2018, a decrease of \$704 million. This decrease was primarily due to charges related to a goodwill impairment, restructuring activities and note repurchase premiums recorded in the third quarter of 2019, as well as lower 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 2019 was \$205 million compared to \$255 million for the third quarter of 2018, a decrease of \$50 million, or 20%. The decrease was largely attributable to higher operating costs, sluggish sales and unfavorable foreign currency effects, partially offset by higher selling prices. Increased operating costs reflected temporary capacity curtailments to align supply with lower than expected demand, as well as the nonoccurrence of several gains that were recorded in the third quarter of 2018.

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

Reportable segment operating profit - 2018		\$	255
Price		\$	48
Sales volume and mix			(9)
Operating costs			(81)
Effects of changing foreign currency rates			(8)
Total net effect on reportable segment operating profit			(50)
Reportable segment operating profit - 2019		\$	<u>205</u>

Americas: Segment operating profit in the Americas in the third quarter of 2019 was \$123 million compared with \$158 million in the third quarter of 2018, a decrease of \$35 million, or 22%. Selling prices were \$30 million higher in the current year quarter compared to the prior year quarter. The net impact of lower organic sales volumes discussed above and the additional sales from the acquired Nueva Fanal facility resulted in a \$6 million reduction to segment operating profit in the current year quarter. Segment operating profit was impacted by \$43 million of higher operating costs in the third quarter of 2019 than the same quarter in the prior year, driven by cost inflation and temporary capacity curtailments in North America to align supply with demand. The region was also impacted by the nonoccurrence of a \$13 million gain that was recorded in the third quarter of 2018 based on a favorable court ruling in Brazil. The effects of foreign currency exchange rates decreased segment operating profit by \$3 million in the current year quarter.

Europe: Segment operating profit in Europe in the third quarter of 2019 was \$79 million compared with \$87 million in the third quarter of 2018, a decrease of \$8 million, or 9%. The decrease in sales volume discussed above reduced segment operating profit in the current year quarter by \$2 million. The effects of foreign currency exchange rates decreased segment operating profit by \$3 million in the current year quarter. Selling prices were \$17 million higher in the current quarter compared to the prior year quarter. Segment operating profit in the third quarter of 2019 decreased due to approximately \$9 million of higher operating costs compared to the same period in the prior year, driven by cost inflation. The region was also impacted by the nonoccurrence of an \$11 million gain on the sale of assets in the third quarter of 2018.

Asia Pacific: Segment operating profit in Asia Pacific in the third quarter of 2019 was \$3 million compared with \$10 million in the third quarter of 2018 a decrease of \$7 million, or 70%. The decrease in sales volumes discussed above reduced segment operating profit in the current year quarter by \$1 million. Selling prices were \$1 million higher in the current quarter compared to the prior year quarter. The effects of foreign currency exchange rates decreased segment operating profit by \$2 million in the current year quarter. Segment operating profit was impacted by \$5 million of higher operating costs in the third quarter of 2019 than the same quarter in the prior year, driven by cost inflation.

Interest Expense, Net

Net interest expense for the third quarter of 2019 was \$83 million compared with \$63 million for the third quarter of 2018. Net interest expense included \$24 million in the third quarter of 2019 for note repurchase premiums and the write-off of deferred finance fees related to debt that was repaid prior to its maturity. Exclusive of these items, net interest expense decreased \$4 million in the third quarter of 2019 compared to the same quarter in the prior year due to lower interest rates on variable debt.

Provision for Income Taxes

The Company's effective tax rate from continuing operations for the three months ended September 30, 2019 was -5.8% compared with 24.4% for the three months ended September 30, 2018. The effective tax rate for the third quarter of 2019 was lower than the same period in 2018 primarily due to a goodwill impairment charge recorded in 2019, which was not deductible for income tax purposes, as well as due to the geographic mix of earnings.

Net Earnings from Continuing Operations Attributable to the Company

For the third quarter of 2019, the Company recorded a net loss from continuing operations attributable to the Company of \$575 million, or \$3.69 per share (diluted), compared to net earnings from continuing operations attributable to the Company of \$120 million, or \$0.75 per share (diluted), in the third quarter of 2018. The loss in the third quarter of 2019 included items that management considered not representative of ongoing operations. These items decreased

earnings attributable to the Company by \$659 million, or \$4.23 per share, in the third quarter of 2019 as set forth in the following table (dollars in millions):

Description	Net Earnings Increase (Decrease) 2019	Net Earnings Increase (Decrease) 2018
Charge for goodwill impairment	\$ (595)	\$ —
Restructuring, asset impairment, pension settlement and other charges	(44)	
Note repurchase premiums, write-off of unamortized finance fees and third party fees	(24)	
Net tax benefit for income tax on items above	4	
Total	\$ (659)	\$ —

Executive Overview — Nine Months ended September 30, 2019 and 2018

2019 Highlights

- Net sales in the first nine months of 2019 were down 3% from the same period in 2018, primarily due to the unfavorable effects of changes in foreign currency exchange rates and lower organic shipments, partially offset by incremental sales from the Nueva Fanal acquisition and higher prices.
- Segment operating profit for reportable segments was down 13% in the first nine months of 2019 compared to the same period in 2018, primarily due to lower segment operating profit in the Americas.
- Goodwill impairment charge of \$595 million related to the Americas segment.
- On June 28, 2019, the Company completed its acquisition of a four furnace glass plant located near Mexico City, Mexico for a total purchase price of approximately \$195 million. The Company has also entered into a long-term glass supply agreement to continue to supply Grupo Modelo brands, such as Corona, for local and global export markets.
- The Company entered into a new \$3.0 billion senior secured credit facility with a final maturity date of June 2024.
- The Company repurchased approximately 2.1 million shares of its common stock during the first nine months of 2019 for approximately \$38 million and paid dividends of approximately \$24 million.
- The Company advanced its tactical and strategic portfolio review initiative which now includes a strategic evaluation of its Australia and New Zealand operations.

Net sales for the first nine months of 2019 were \$179 million lower than the same period in the prior year primarily due to the unfavorable effect of changes in foreign currency exchange rates and lower organic shipments, partially offset by incremental sales from the Nueva Fanal acquisition and higher prices.

Loss from continuing operations before income taxes was \$326 million in the first nine months of 2019 compared to \$381 million of earnings in the same period of the prior year. This decrease was primarily due to charges related to a goodwill impairment, restructuring activities and note repurchase premiums recorded in the first nine months of 2019, as well as lower segment operating profit. Segment operating profit for reportable segments for the first nine months of 2019 was \$93 million lower than the same period in the prior year, driven by lower segment operating profit in the Americas.

Net interest expense for the first nine months of 2019 increased \$16 million compared to the same period in 2018. Net interest expense included \$26 million and \$11 million for note repurchase premiums and the write-off of deferred finance fees in the first nine months of 2019 and 2018, respectively, that related to debt that was repaid prior to its maturity.

For the first nine months of 2019, the Company recorded a loss from continuing operations attributable to the Company of \$429 million, or \$2.77 per share (diluted), compared to earnings of \$268 million, or \$1.65 per share (diluted), in the first nine months of 2018. Earnings (loss) in the first nine months of 2019 and 2018 included items that management considered not representative of ongoing operations. These items decreased earnings attributable to the Company by \$701 million, or \$4.51 per share, in the first nine months of 2019 and decreased net earnings attributable to the Company by \$75 million, or \$0.45 per share in the first nine months of 2018.

Results of Operations — First nine months of 2019 compared with first nine months of 2018

Net Sales

The Company's net sales in the first nine months of 2019 were \$5,063 million compared with \$5,242 million for the first nine months of 2018, a decrease of \$179 million, or 3%. Unfavorable foreign currency exchange rates decreased sales by \$219 million in the first nine months of 2019 compared to the prior year period as the U.S. dollar strengthened against the Australian dollar, Brazilian real, Colombian peso, Mexican peso and the Euro. Total glass container shipments, in tonnes, were approximately 1% lower in the first nine months of 2019 compared to the prior year period. Excluding the impact of the Nueva Fanal acquisition, total glass container shipments, in tonnes, were down approximately 2% in the first nine months of 2019 compared to the same period in the prior year and was primarily driven by lower alcoholic beverage shipments in the Americas. The net impact of lower organic sales and the additional sales from the Nueva Fanal acquisition resulted in a \$91 million reduction to net sales in the third quarter of 2019 compared to the prior year. Higher selling prices increased net sales by \$134 million in 2019.

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

Reportable segment net sales - 2018		\$ 5,198
Price	\$ 134	
Sales volume and mix (excluding acquisitions)	(91)	
Effects of changing foreign currency rates	(219)	
Total effect on reportable segment net sales		(176)
Reportable segment net sales - 2019		<u>\$ 5,022</u>

Americas: Net sales in the Americas in the first nine months of 2019 were \$2,733 million compared with \$2,777 million in the same period in 2018, a decrease of \$44 million, or 2%. Higher selling prices increased net sales by \$84 million in the first nine months of 2019. Total glass container shipments in the region were down approximately 1% in the first nine months of 2019 compared to the prior year period. Excluding the impact of the Nueva Fanal acquisition in the region, total glass container shipments were down approximately 2%, primarily driven by lower shipments to alcoholic beverage and nonalcoholic beverage customers. Year over year shipments in Brazil and Colombia were strong compared to the first nine months in the prior year. In the U.S., sales volumes were primarily impacted by lower shipments to food and alcoholic beverage customers, largely due to ongoing trends in beer shipments and the transfer of production to the Company's joint venture with Constellation Brands. The net impact of lower organic sales in the region and the additional sales from the Nueva Fanal acquisition resulted in a \$56 million reduction to net sales in the first nine months of 2019 compared to the prior year. The unfavorable effects of foreign currency exchange rate changes decreased net sales \$72 million in the first nine months of 2019 compared to 2018.

Europe: Net sales in Europe in the first nine months of 2019 were \$1,834 million compared with \$1,930 million for the same period in 2018, a decrease of \$96 million, or 5%. Unfavorable foreign currency exchange rates impacted the region by approximately \$118 million in the first nine months of 2019 as the Euro weakened in relation to the U.S. dollar. Glass container shipments in the first nine months of 2019 were down nearly 2% compared to the same period in 2018, primarily driven by capacity constraints, extreme weather conditions and generally soft demand given increased macroeconomic uncertainty, resulting in \$27 million of lower net sales. Selling prices in Europe increased net sales by \$49 million in the first nine months of 2019 compared to the same period in the prior year.

Asia Pacific: Net sales in Asia Pacific in the first nine months of 2019 were \$455 million compared with \$491 million for the same period in 2018, a decrease of \$36 million, or 7%. Glass container shipments in the first nine months of 2019 were down nearly 1% compared with the same period in the prior year, which resulted in \$8 million of lower sales. The effects of foreign currency exchange rate changes in the current year period decreased net sales by \$29 million. Selling prices were \$1 million higher in the first nine months of 2019 compared to the same period in the prior year.

Earnings from Continuing Operations before Income Taxes and Segment Operating Profit

Loss from continuing operations before income taxes was \$326 million in the first nine months of 2019 compared to earnings from continuing operations before income taxes of \$381 million in the first nine months of 2018, a decrease of \$707 million, or 186%. This decrease was primarily due to charges related to a goodwill impairment, restructuring activities and note repurchase premiums recorded in the first nine months of 2019, as well as lower 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 first nine months of 2019 was \$641 million compared to \$734 million for the first nine months of 2018, a decrease of \$93 million, or 13%. The decrease was largely attributable to the unfavorable effect of changes in foreign currency, lower sales volumes and higher operating costs, partially offset by higher selling prices. Increased operating costs reflected additional costs to commission a new joint venture furnace, unexpected weather related downtime, temporary capacity curtailments to align supply with lower than expected demand, as well as the nonoccurrence of several gains that were recorded in the first nine months of 2018.

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

Reportable segment operating profit - 2018		\$	734
Price		\$	134
Sales volume and mix			(19)
Operating costs			(183)
Effects of changing foreign currency rates			(25)
Total net effect on reportable segment operating profit			(93)
Reportable segment operating profit - 2019		\$	<u>641</u>

Americas: Segment operating profit in the Americas in the first nine months of 2019 was \$380 million compared with \$458 million in the same period in 2018, a decrease of \$78 million, or 17%. The net impact of lower organic sales volumes discussed above and the additional sales from the acquired Nueva Fanal facility resulted in a \$9 million reduction to segment operating profit in the first nine months of 2019. Selling prices were \$84 million higher in the first nine months of 2019 compared to the same period in the prior year. Segment operating profit was impacted by \$139 million of higher operating costs in the first nine months of 2019 than the same period in the prior year, driven by cost inflation, costs incurred to add production capacity at several plants in Latin America, weather-related downtime and temporary capacity curtailments in North America to align supply with demand. Segment operating profit in the region was also impacted by \$8 million of lower insurance gains in the first nine months of 2019 than in the same period in the prior year. The region was also impacted by the nonoccurrence of a \$13 million gain that was recorded in the third quarter of 2018 based on a favorable court ruling in Brazil. Partially offsetting this, the region's restructuring actions in 2018 and 2019 have reduced operating costs by approximately \$17 million in the first nine months of 2019, in line with management's expectations. The effects of foreign currency exchange rates decreased segment operating profit by \$10 million in the first nine months of 2019, which included a \$4 million impact from the highly-inflationary basis of accounting in the region's operations in Argentina.

Europe: Segment operating profit in Europe in the first nine months of 2019 was \$248 million compared with \$260 million in the same period in 2018, a decrease of \$12 million, or 5%. The decrease in sales volume discussed above decreased segment operating profit in the first nine months of 2019 by \$7 million. The effects of foreign currency exchange rates decreased segment operating profit by \$13 million in the first nine months of 2019. Selling prices were \$49 million higher in the first nine months of 2019 compared to the same period in the prior year. Segment operating profit in the first nine months of 2019 decreased due to approximately \$30 million of higher operating costs compared to the same period in the prior year, primarily due to cost inflation. The region was also impacted by the nonoccurrence of an \$11 million gain on the sale of assets in the first nine months of 2018.

Asia Pacific: Segment operating profit in Asia Pacific in the first nine months of 2019 was \$13 million compared with \$16 million in the first nine months of 2018, a decrease of \$3 million, or 19%. The decrease in sales volume discussed above reduced segment operating profit by \$3 million. Selling prices were \$1 million higher in the first nine months of 2019 compared to the same period in the prior year. The effects of foreign currency exchange rates decreased segment operating profit by \$2 million in the first nine months of 2019. The region experienced approximately \$1 million of lower operating costs, which benefited segment operating profit, in the first nine months of 2019 compared to the same period in the prior year due to fewer asset improvement projects in 2019.

Interest Expense, Net

Net interest expense for the first nine months of 2019 was \$215 million compared with \$199 million for the first nine months of 2018. Net interest expense included \$26 million and \$11 million in the first nine months of 2019 and 2018, respectively, for note repurchase premiums and the write-off of deferred finance fees and third party fees that were related to debt that was repaid prior to its maturity. Exclusive of these items, net interest expense increased \$1 million in the first nine months of 2019 compared to the same period in the prior year due to higher debt levels.

Provision for Income Taxes

The Company's effective tax rate from continuing operations for the nine months ended September 30, 2019 was -26.4% compared with 24.9% for the nine months ended September 30, 2018. The effective tax rate for the nine months ended September 30, 2019, was lower than the same period in 2018 primarily due to a goodwill impairment charge recorded in 2019, which was not deductible for income tax purposes, as well as due to the geographic mix of earnings.

The Company expects that the full year effective tax rate for 2019 will range between approximately 24% and 26% (excluding the tax on items that management considers not representative of ongoing operations).

Net Earnings from Continuing Operations Attributable to the Company

For the first nine months of 2019, the Company recorded net losses from continuing operations attributable to the Company of \$429 million, or \$2.77 per share (diluted), compared to net earnings from continuing operations attributable to the Company \$268 million, or \$1.65 per share (diluted), in the first nine months of 2018. Earnings in 2019 and 2018 included items that management considered not representative of ongoing operations as set forth in the following table (dollars in millions):

Description	Net Earnings	
	2019	2018
Charge for goodwill impairment	\$ (595)	\$ —
Restructuring, asset impairment, pension settlement and other charges	(86)	(73)
Note repurchase premiums, write-off of unamortized finance fees and third party fees	(26)	(11)
Net tax benefit for income tax on items above	6	9
Total	<u>\$ (701)</u>	<u>\$ (75)</u>

Items Excluded from Reportable Segment Totals

Retained Corporate Costs and Other

Retained corporate costs and other for the third quarter of 2019 were \$20 million compared with \$24 million recorded in the third quarter of 2018. For the first nine months of 2019, retained corporate costs and other were \$71 million compared with \$81 million for the same period in 2018. These costs were lower in 2019 primarily due to the benefit of recent organization simplification initiatives and lower management incentive compensation expense.

Charge for Goodwill Impairment

As part of its on-going assessment of goodwill, the Company determined that indicators of impairment had occurred during the the third quarter of 2019. The triggering events were management's update to its long-range plan, which indicated lower projected future cash flows for its North American reporting unit (in the Americas segment) as compared to the projections used in the most recent goodwill impairment test performed as of October 1, 2018, and a

significant reduction in the Company's share price. The Company's business in North America has experienced declining shipments to its alcoholic beverage customers, primarily in the beer category, and this trend is likely to continue into the foreseeable future. These factors, combined with the narrow difference between the estimated fair value and carrying value of the North American reporting unit as of December 31, 2018, resulted in the Company performing an interim impairment analysis during the third quarter of 2019. As a result, the Company recorded a non-cash impairment charge of \$595 million in the third quarter of 2019, which was equal to the excess of the North American reporting unit's carrying value over its fair value. Goodwill related to the Company's other reporting units was determined to not be impaired as a result of the interim impairment analysis.

See Note 4 to the Consolidated Financial Statements for further information.

Restructuring, Asset Impairment and Other Charges

In the three and nine months ended September 30, 2019, the Company implemented several discrete restructuring initiatives and recorded restructuring, asset impairment and other charges of \$43 million and \$86 million, respectively. These charges consisted of employee costs, such as severance, benefit related costs and pension settlement costs, and other exit costs primarily related to a severance program for certain salaried employees at the Company's corporate and America's headquarters and a furnace closure in the Americas. These restructuring charges were discrete actions and are expected to approximate the total cumulative costs for those actions as no significant additional costs are expected to be incurred. For the three months ended September 30, 2019, these charges were recorded to Other expense, net (\$42 million) and Cost of goods sold (\$1 million) on the Condensed Consolidated Results of Operations. For the nine months ended September 30, 2019, these charges were recorded to Cost of goods sold (\$1 million), Selling and administrative expense (\$2 million) and Other expense, net (\$83 million) on the Condensed Consolidated Results of Operations. The Company expects that the majority of the remaining cash expenditures related to the accrued employee costs will be paid out by the end of 2019.

In the nine months ended September 30, 2018, the Company implemented several discrete restructuring initiatives and recorded restructuring, asset impairment and other charges of \$73 million. These charges consisted of employee costs, write-down of assets and other exit costs primarily related to a plant closure in the Americas region. These restructuring charges were discrete actions and are expected to approximate the total cumulative costs for those actions as no significant additional costs are expected to be incurred. These restructuring actions primarily relate to capacity curtailments and the Company plans to reallocate the products produced to other facilities. These charges were recorded to Cost of goods sold (\$5 million) and Other expense, net (\$68 million) on the Condensed Consolidated Results of Operations. The Company expects that the majority of the remaining cash expenditures related to the above charges will be paid out by the end of 2019.

See Note 6 to the Consolidated Financial Statements for further information.

Discontinued Operations

On December 6, 2018, an ad hoc committee for the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") rejected the request by the Bolivarian Republic of Venezuela ("Venezuela") to annul the award issued by an ICSID tribunal in favor of OI European Group B.V. ("OIEG") related to the 2010 expropriation of OIEG's majority interest in two plants in Venezuela (the "Award"). The annulment proceeding with respect to the Award is now concluded.

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. 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 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.

As a result of the favorable ruling by an ICSID ad hoc committee rejecting Venezuela's request to annul the OIEG Award, and thereby concluding those annulment proceedings, the Company recognized a \$115 million gain from discontinued operations in the fourth quarter of 2018.

A separate arbitration involving other subsidiaries of the Company was initiated in 2012 to obtain compensation primarily for third-party minority shareholders' lost interests in the two expropriated plants. However, on November 13, 2017, ICSID issued an award that dismissed this arbitration on jurisdiction grounds. In March 2018, the two subsidiaries of the Company submitted to ICSID an application to annul the November 13, 2017 award, and a hearing on the annulment was heard by an ad hoc committee of ICSID in July 2019; no decision has been rendered yet.

The loss from discontinued operations, which primarily reflects the ongoing costs for the Venezuelan expropriation, was approximately \$1 million for each of the nine month periods ended September 30, 2019 and 2018.

Strategic Portfolio and Operations Review

In the third quarter of 2019, the Company advanced its strategic review of its business portfolio and operating structure. This review is aimed at exploring options to maximize investor value, focused on aligning the Company's business with demand trends, improving the Company's operating efficiency, cost structure and working capital management, while ensuring the Company remains well-positioned to address its legacy liabilities. The review is ongoing and may result in divestitures, corporate transactions or similar actions, and could cause the Company to incur restructuring, impairment, disposal or other related charges in future periods.

Capital Resources and Liquidity

On June 25, 2019, certain of the Company's subsidiaries entered into a new Senior Secured Credit Facility (the "Agreement"), which amended and restated the previous credit agreement (the "Previous Agreement"). The proceeds from the Agreement were used to repay all outstanding amounts under the Previous Agreement. The Company recorded \$2 million of additional interest charges for third party fees and the write-off of unamortized fees in the second quarter of 2019.

The Agreement provides for up to \$3.0 billion of borrowings pursuant to term loans and revolving credit facilities. The term loans mature, and the revolving credit facilities terminate, in June 2024. At September 30, 2019, the Agreement includes a \$300 million revolving credit facility, a \$1.2 billion multicurrency revolving credit facility, and a \$1.5 billion term loan A facility (\$1,496 million net of debt issuance costs). At September 30, 2019, the Company had unused credit of \$1.2 billion available under the Agreement. The weighted average interest rate on borrowings outstanding under the Agreement at September 30, 2019 was 3.26%.

The Agreement contains various covenants that restrict, among other things and subject to certain exceptions, the ability of the Company to incur certain indebtedness and 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 Agreement also contains one financial maintenance covenant, a Total Leverage Ratio (the "Leverage Ratio"), that requires the Company not to exceed a ratio of 5.0x calculated by dividing consolidated total debt, less cash and cash equivalents, by Consolidated EBITDA, with such Leverage Ratio decreasing to 4.50x for the quarter ending December 31, 2020 and thereafter, as defined and described in the Agreement. The maximum Leverage Ratio is subject to an increase of 0.5x for (i) any fiscal quarter during which certain qualifying acquisitions (as specified in the Agreement) are consummated and (ii) the following three fiscal quarters, provided that the Leverage Ratio shall not exceed 5.0x. The Leverage Ratio could restrict the ability of the Company to undertake additional financing or acquisitions to the extent that such financing or acquisitions would cause the Leverage Ratio to exceed the specified maximum.

Failure to comply with these covenants and other customary restrictions could result in an event of default under the Agreement. In such an event, the Company could not request borrowings under the revolving facilities, and all amounts outstanding under the Agreement, together with accrued interest, could then be declared immediately due and payable.

Upon the occurrence and for the duration of a payment event of default, an additional default interest rate equal to 2.0% per annum will apply to all overdue obligations under the Agreement. If an event of default occurs under the Agreement and the lenders cause all of the outstanding debt obligations under the Agreement to become due and payable, this would result in a default under a number of other outstanding debt securities and could lead to an acceleration of obligations related to these debt securities. As of September 30, 2019, the Company was in compliance with all covenants and restrictions in the Agreement. In addition, the Company believes that it will remain in compliance and that its ability to borrow funds under the Agreement will not be adversely affected by the covenants and restrictions.

The Leverage Ratio also determines pricing under the Agreement. The interest rate on borrowings under the Agreement is, at the Company's option, the Base Rate or the Eurocurrency Rate, as defined in the Agreement, plus an applicable margin. The applicable margin is linked to the Leverage Ratio. The margins range from 1.00% to 1.50% for Eurocurrency Loans and from 0.00% to 0.50% for Base Rate Loans. In addition, a commitment fee is payable on the unused revolving credit facility commitments ranging from 0.20% to 0.30% per annum linked to the Leverage Ratio.

Obligations under the 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. Such obligations 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 obligations, of stock of certain foreign subsidiaries. All obligations under the Agreement are guaranteed by certain domestic subsidiaries of the Company, and certain foreign obligations under the Agreement are guaranteed by certain foreign subsidiaries of the Company.

In July 2019, the Company's wholly owned subsidiary, OI European Group B.V., redeemed €250 million aggregate principal amount of its outstanding 6.75% senior notes due 2020 (the "Notes"). Following the redemption, €250 million aggregate principal amount of the Notes remain outstanding at September 30, 2019. The Company recorded \$24 million of additional interest charges for note repurchase premiums and the write-off of unamortized finance fees related to this redemption.

In order to maintain a capital structure containing appropriate amounts of fixed and floating-rate debt, the Company has entered into a series of interest rate swap agreements. These interest rate swap agreements were accounted for as either fair value hedges or cash flow hedges (see Note 5).

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.

Cash Flows

Operating activities: Cash utilized in continuing operating activities was \$246 million for the nine months ended September 30, 2019, compared to cash provided of \$99 million for the nine months ended September 30, 2018. The increase in cash utilized by operating activities in the first nine months of 2019 was primarily due to lower net earnings, higher cash paid for asbestos-related payments and restructuring payments and higher working capital levels than in the same period in 2018. Working capital was a use of cash of \$661 million in the first nine months of 2019 compared to a use of cash of \$545 million in the same period in 2018. The primary reasons for the higher use of working capital were higher accounts receivable balances and higher inventory balances than at year end 2018. As of September 30, 2019 and 2018, the Company reduced its level of accounts receivable factoring compared to the most recent respective year-end periods and this led to a use of cash from working capital in the first nine months of 2019 and 2018. The reduction in accounts receivable factoring compared to the most recent year end period was approximately \$66 million more in the first nine months of 2019 than in 2018 and this contributed to a higher use of cash from working capital in the 2019 period. Also, the Company has continued to experience higher year over year sales levels in several countries, such as Brazil, Colombia and Mexico, and lower sales levels in the U.S. This change in the Company's sales mix has impacted its receivables as longer payment terms are more common outside the U.S. Together, the impact of less factoring and a higher mix of sales outside the U.S. have negatively impacted the Company's operating cash flows in the first nine months of 2019.

Cash payments for restructuring activities were \$41 million in the first nine months of 2019 compared to \$21 million in the same period in 2018, driven higher in 2019 by several restructuring projects in the Americas region and at the corporate headquarters. Also, asbestos-related payments in the first nine months of 2019 were \$135 million, or

approximately \$95 million higher compared to the same period in the prior year, due to the execution of the Company's de-risking and accelerated claim disposition strategy. The Company continues to expect that its full year 2019 asbestos-related payments will approximate \$160 million. See Note 11 to the Consolidated Financial Statements for additional information.

Investing activities: Cash utilized in investing activities was \$505 million for the nine months ended September 30, 2019, compared to \$421 million utilized for the nine months ended September 30, 2018. Capital spending for property, plant and equipment was \$333 million during the first nine months of 2019 compared to \$383 million in the same period in 2018. Capital spending decreased in the first nine months of 2019 due to lower project activity in the Asia Pacific region, as well as a lower level of vendor invoices paid in early 2019 that were accrued at the end of 2018 compared to the same period in the prior year.

Cash paid for acquisitions was \$157 million and \$0 for the first nine months ended September 30, 2019 and 2018, respectively. On June 28, 2019, the Company completed its acquisition of Nueva Fábrica Nacional de Vidrio, S. de R.L. de C.V., a four furnace glass plant located near Mexico City, Mexico, from Grupo Modelo, a wholly owned affiliate of Anheuser-Busch InBev SA/NV. Through September 30, 2019, \$157 million of the purchase price has been paid for this facility and an additional approximately \$42 million is expected to be paid by the end of 2019. Contributions and advances to joint ventures were \$22 million and \$48 million in the first nine months of 2019 and 2018, respectively.

Financing activities: Cash provided by financing activities was \$518 million for the nine months ended September 30, 2019, compared to \$285 million for the same period in 2018. The increase in cash provided by financing activities was primarily due to higher net borrowings in the first nine months of 2019.

Through the first nine months of 2019 and 2018, the Company repurchased \$38 million and \$107 million, respectively, in shares of the Company's stock. No additional share repurchases are expected in 2019. In addition, the Company paid dividends of \$24 million in the first nine months of 2019. On October 28, 2019, the Company's Board of Directors declared a dividend of \$0.05 per share, which will be paid on December 16, 2019, to shareholders of record on the close of business on November 29, 2019. The Board anticipates declaring a dividend in future quarters on a regular basis; however, future declarations of dividends are subject to Board approval and may be adjusted based on the Company's results of operations, financial position and cash flow, or as business needs or market conditions change.

Through the first nine months of 2019 and 2018, the Company paid \$31 million and \$13 million, respectively, for note repurchase premiums and finance fees. Also, the Company received approximately \$28 million in proceeds related to hedging activity in the first nine months of 2019.

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.

The Company currently intends to retain earnings for use in its business, for investment in acquisitions and to repurchase shares of its common stock. The Company continuously reassesses its capital allocation strategy, and evaluates a variety of options, including share repurchases and dividends, as a means to return capital to its share owners.

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, 2019 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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," "intend," "predict," "potential," "continue," and the negatives of these words and other similar expressions generally identify forward-looking statements. It is possible the Company's future financial performance may differ from expectations due to a variety of factors including, but not limited to the following: (1) foreign currency fluctuations relative to the U.S. dollar, (2) changes in capital availability or cost, including interest rate fluctuations and the ability of the Company to refinance debt at favorable terms, (3) the general political, economic and competitive conditions in markets and countries where the Company has operations, including uncertainties related to Brexit, economic and social conditions, disruptions in the supply chain, competitive pricing pressures, inflation or deflation, and changes in tax rates and laws, (4) the Company's ability to generate sufficient future cash flows to ensure the Company's goodwill is not impaired, (5) consumer preferences for alternative forms of packaging, (6) cost and availability of raw materials, labor, energy and transportation, (7) the Company's ability to manage its cost structure, including its success in implementing restructuring or other plans aimed at improving the Company's operating efficiency and working capital management, addressing the Company's asbestos-related liabilities and achieving cost savings, (8) consolidation among competitors and customers, (9) the Company's ability to acquire or divest businesses, acquire and expand plants, integrate operations of acquired businesses and achieve expected benefits from such acquisitions, divestitures or expansions, (10) unanticipated expenditures with respect to data privacy, environmental, safety and health laws, (11) unanticipated operational disruptions, including higher capital spending, (12) the Company's ability to further develop its sales, marketing and product development capabilities, (13) the failure of the Company's joint venture partners to meet their obligations or commit additional capital to the joint venture, (14) the ability of the Company and the third parties on which it relies for information technology system support to prevent and detect security breaches related to cybersecurity and data privacy, (15) the Company's ability to accurately estimate its total asbestos-related liability or to control the timing and occurrence of events related to outstanding asbestos-related claims, including but not limited to settlements of those claims, (16) changes in U.S. trade policies, (17) 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, 2018 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, 2019 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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, 2019.

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, 2019 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 11 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, 2019 from those described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

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

The Company purchased 2,064,652 shares of its common stock during the first nine months of 2019 for approximately \$38 million pursuant to authorization by its Board of Directors in January 2018 to purchase up to \$400 million of the Company’s common stock along with an authorization by its Board of Directors in November 2018 to purchase an additional \$313 million of the Company’s common stock. The following table provides information about the Company’s purchases of its common stock during the three months ended September 30, 2019:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (in thousands)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (in millions)
July 1 - July 31, 2019				512
August 1 - August 31, 2019				512
September 1 - September 31, 2019				512

Item 6. Exhibits.

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, 2019, were formatted in iXBRL (Inline eXtensible Business Reporting Language): (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.
Exhibit 104	Cover Page Interactive Data file (formatted as Inline XBRL and contained in Exhibit 101)

* 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 29, 2019

By /s/ John A. Haudrich

John A. Haudrich

Senior Vice President and Chief Financial Officer

CERTIFICATIONS

I, Andres A. Lopez, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Owens-Illinois, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2019

/s/ Andres A. Lopez

Andres A. Lopez
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, John A. Haudrich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Owens-Illinois, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2019

/s/ John A. Haudrich

John A. Haudrich
Senior Vice President and Chief Financial Officer

Certification of Principal Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Owens-Illinois, Inc. (the "Company") hereby certifies that to such officer's knowledge:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 29, 2019

/s/ Andres A. Lopez

Andres A. Lopez
President and Chief Executive Officer

EXHIBIT 32.2

Certification of Principal Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Owens-Illinois, Inc. (the "Company") hereby certifies that to such officer's knowledge:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 29, 2019

/s/ John A. Haudrich

John A. Haudrich
Senior Vice President and Chief Financial Officer
