Owens-Illinois Plastics Ltd

Report and Financial Statements

31 December 2003

Registered Number: 1038677

Registered No. 1038677

Director
T L Young

Secretary
P J Anderson

Auditors
Ernst & Young LLP
No. 1 Colmore Square
Birmingham
B4 6HQ

Bankers
Barclays Bank PLC
28 George Street
Luton
LU1 2AE

Registered office
Irton House
The Tower Estate
Warpsgrove Lane
Chalgrove
Oxfordshire
OX44 7TH

Directors' report

The director presents the report and financial statements for the year ended 31 December 2003.

Results and dividends

The loss for the year amounted to £537,000 (2002: £2,388,000 loss). The director does not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year continued to be the manufacture of plastic containers, mainly in PET resin but also in polypropylene. These products were supplied to a variety of manufacturers for filling with their products (food, drinks, cosmetics, pharmaceuticals, etc).

Turnover increased again to £12,784,000 from £12,457,000 with an operating profit of £15,000 from a loss of £2,410,000 in 2003.

Events since the balance sheet date

On 28 July 2004, Owens-Illinois Inc. entered into a definitive agreement with the Graham Packaging Company, based in Pennsylvania, USA, to sell its blow moulded plastic container operations in North America, South America and Europe. This agreement is expected to be completed in the fourth quarter of 2004 as it is subject to regulatory approvals and other customary conditions. Owens-Illinois Plastics Limited is to be transferred as part of this agreement.

Graham Packaging is a worldwide leader in the design, manufacture and sale of customised blow moulded containers. The company employs over 4,000 people at 57 plants throughout North America, Europe and South America and had a total worldwide sale of $1.0 billion over the last 12 months.

It is the intention of Graham Packaging to integrate the companies and create a premier company in the packaging sector.

Directors

The director who served the company during the year was as follows:

T L Young

There are no directors' interests requiring disclosure under the Companies Act 1985.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

T L Young

T L Young
Director

10 OCTOBER 2004

Statement of directors' responsibilities in respect of the financial statements

Company law requires the director to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. He is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report
to the members of Owens-Illinois Plastics Ltd

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

10 October 2004

Profit and loss account
for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Turnover	2	12,784	12,457
Cost of sales		(10,696)	(10,436)
Gross profit		2,088	2,021
Distribution costs		1,274	1,348
Administrative expenses		799	3,083
Operating profit/(loss)	3	15	(2,410)
Interest payable and similar charges	5	(601)	(620)
Interest receivable		57	-
Loss on ordinary activities before taxation		(529)	(3,030)
Tax (charge)/credit on loss on ordinary activities	6	(8)	642
Loss for the financial year		(537)	(2,388)

Statement of total recognised gains and losses
for the year ended 31 December 2003

There were no recognised gains or losses in the year or the previous year other than those reported above.

Balance sheet
at 31 December 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Tangible assets	7	6,928	8,608
Current assets			
Stocks	8	1,327	1,336
Debtors	9	3,096	3,303
Cash at bank		111	44
		4,534	4,683
Creditors: amounts falling due within one year	10	3,985	5,678
Net current assets / (liabilities)		549	(995)
Total assets less current liabilities		7,477	7,613
Creditors: amounts falling due after more than one year	11	6,247	5,839
Provisions for liabilities and charges			
Deferred taxation	6(c)	603	610
		627	1,164
Capital and reserves			
Called up share capital	14	7,644	7,644
Share premium account	15	167	167
Other reserves	15	8	8
Profit and loss account	15	(7,192)	(6,655)
Equity shareholders' funds	15	627	1,164

T L Young
T L Young
Director

10 OCTOBER 2004

Notes to the financial statements

at 31 December 2003

1. Accounting policies (continued)

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Plant & Machinery	-	7.5% - 20% per annum
Fixtures & Fittings	-	20% per annum
Motor Vehicles	-	33% per annum

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements
at 31 December 2003

1. Accounting policies (continued)

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Operating lease agreements
Rentals payable under operating leases are charged in the Profit and Loss Account on a straight line basis over the lease term.

Pension costs
The company operates a defined benefit pension scheme, which requires contributions to be made to separately administered funds. Contributions are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives within the company. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Moulds and development costs
Moulds and development costs are depreciated over varying periods up to a maximum of 5 years depending upon:

(a) their useful life; and

(b) the length of customer contracts

Depreciation is on a straight line basis commencing in the month in which the mould is first used.

Recoverable tooling
The company works in partnership with various customers and this may involve the agreement to purchase tooling for containers that may be recoverable over the period of the contract. This is stated within the balance sheet and any excess or surplus is reviewed and then taken to the profit and loss account.

2. Turnover
Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover is attributable to one continuing activity, the manufacture and distribution of plastic bottles and jars.

An analysis of turnover by geographical market is given below:

	2003	*2002*
	£000	*£000*
United Kingdom	8,644	9,306
Rest of Europe	4,078	3,033
Rest of World	62	118
	12,784	12,457

Notes to the financial statements
at 31 December 2003

3. Operating loss

This is stated after charging/(crediting):

		2003 £000	2002 £000
Auditors' remuneration	- audit services	18	71
	- non-audit services	7	26
		25	97
Impairment of tangible fixed assets		65	92
Depreciation of owned fixed assets		1,468	1,114
		1,533	1,114
Amortisation of tooling		71	485
		1,604	1,599
Profit on disposal of fixed assets		(20)	(5)
Operating lease rentals	- plant and machinery	27	18

4. Staff costs

	2003 £000	2002 £000
Wages and salaries	2,906	2,861
Social security costs	238	236
Other pension costs (note 17)	181	171
	3,325	3,268

The monthly average number of employees during the year was as follows:

	2003 No.	2002 No.
Administrative staff	6	6
Sales and marketing	5	6
Manufacturing	97	91
	108	103

There were no emoluments paid to the directors by the company in 2003 (2002: £nil).

Notes to the financial statements
at 31 December 2003

5. Interest payable

	2003	*2002*
	£000	*£000*
Bank interest payable	1	33
Intercompany interest	600	587
	601	620

6. Tax

(a) Tax on loss on ordinary activities

The tax charge / (credit) is made up as follows:

	2003	*2002*
	£000	*£000*
Current tax:		
UK corporation tax		
Group relief recoverable	-	(23)
Adjustments in respect of previous periods	15	(136)
Total current tax charge / (credit) (note 6(b))	15	(159)
Deferred tax:		
Origination and reversal of timing differences	(7)	(483)
Tax charge / (credit) on loss on ordinary activities	8	(642)

(b) Factors affecting current tax charge / (credit)

The differences are reconciled below:

	2003	*2002*
	£000	*£000*
Loss on ordinary activities before taxation	(529)	(3,030)
Loss on ordinary activities by standard rate of tax in the UK 30% (2002 30%)	(159)	(909)
Disallowed expenses and non-taxable income	(18)	361
Capital allowances in advance of depreciation	87	(77)
Short-term timing differences	127	143
Adjustment in respect of previous periods	15	(136)
Trading losses	(37)	459
Total current tax charge / (credit) (note 6(a))	15	(159)

Notes to the financial statements
at 31 December 2003

6. Tax (continued)
(c) Deferred tax

	2003 £000	2002 £000
Capital allowances in advance of depreciation	1,126	1,207
Other timing differences	(523)	(597)
Provision for deferred taxation liability	603	610

	£
At 1 January 2003	610
Profit and loss account movement arising during the year	(49)
Adjustments in respect of previous periods	42
At 31 December 2003	603

7. Tangible fixed assets

	Plant & Machinery £000	Equipment and vehicles £000	Total £000
Cost:			
At 1 January 2003	14,225	4,389	18,614
Additions	270	-	270
Disposals	(692)	(69)	(761)
Transfers	(51)	51	-
At 31 December 2003	13,752	4,371	18,123
Depreciation:			
At 1 January 2003	6,183	3,823	10,006
Provided during the year	1,446	22	1,468
Impairment of assets	65	-	65
Disposals	(224)	(120)	(344)
At 31 December 2003	7,470	3,725	11,195
Net book value:			
At 31 December 2003	6,274	654	6,928
At 1 January 2003	8,042	566	8,608

8. Stocks

	2003 £000	2002 £000
Raw materials	397	411
Finished goods	930	925
	1,327	1,336

The directors consider that there is no material difference between the value of stock as stated above and its replacement cost.

Notes to the financial statements
at 31 December 2003

9. Debtors

	2003	*2002*
	£000	*£000*
Trade debtors	2,256	2,337
Amounts owed by group undertakings	196	552
Corporation tax repayable	320	179
Other debtors	36	-
Prepayments and accrued income	288	235
	3,096	3,303

10. Creditors: amounts falling due within one year

	2003	*2002*
	£000	*£000*
Chargeable tooling	-	238
Trade creditors	788	1,662
Amounts owed to group undertakings	2,472	2,979
Other taxes and social security costs	69	27
Other creditors	58	114
Accruals and deferred income	598	658
	3,985	5,678

11. Creditors: amounts falling due after more than one year

	2003	*2002*
	£000	*£000*
Amounts owed to group undertakings	6,247	5,839

12. Commitments under operating leases

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as set out below.

	Assets other than land and buildings	
	2003	*2002*
	£000	*£000*
Operating leases which expire:		
Within one year	27	18
In two to five years	26	12
	53	30

Notes to the financial statements
at 31 December 2003

13. Related party transactions
The company is a wholly owned subsidiary of Owens-Illinois BV, a company registered in the Netherlands who prepare published consolidated financial statements. The company has pursuant to paragraph 17 of FRS 8 "Related Party Disclosures" not included details of transactions with other companies which are subsidiaries of Owens-Illinois Inc. There are no other related party transactions.

Disclosure of the Directors' interests in the shares of the company is made in the Directors' Report.

14. Share capital

		Authorised
	2003	*2002*
	£000	*£000*
Ordinary shares of £1 each	7,644	7,644

	Allotted, called up and fully paid			
		2003		*2002*
	No.	*£000*	*No.*	*£000*
Ordinary shares of £1 each	7,643,801	7,644	7,643,801	7,644

15. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Share premium account*	*Capital redemption reserve*	*Profit and loss account*	*Total share-holders' funds*
	£000	*£000*	*£000*	*£000*	*£000*
At 1 January 2002	7,644	167	8	(4,267)	3,552
Loss for the year	-	-	-	(2,388)	(2,388)
At 31 December 2002	7,644	167	8	(6,655)	1,164
Loss for the year	-	-	-	(537)	(537)
At 31 December 2003	7,644	167	8	(7,192)	627

16. Capital commitments
Amounts contracted for but not provided in the financial statements amounted to £nil (2002: £98,525).

Notes to the financial statements

at 31 December 2003

17. Pension commitments

(a) Pensions

The company operates a defined benefit scheme for its employees.
The scheme is funded by the payment of contributions to separately administered trust funds.

The pension cost charged to the profit and loss account for the period was £181,000 (2002: £171,000). The amount included within accruals at 31 December 2003 was £21,000 (2002: £20,000).

The most recent independent actuarial valuation as at 6 April 2003 showed that the market value of the scheme assets was £2.2 million and that the actuarial value of those represented 74% of the benefits that had accrued to members after allowing for future increases in earnings. The scheme was valued in accordance with the projected unit method. The most significant assumptions affecting the valuations are as follows:

Rate of return on investment	7.5% pa
Rate of salary increase	3.0% pa
Rate of pension increases on non-GMP element (LPI level)	3.2% pa (LPI min 3%)

FRS17 disclosures

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation as at 6 April 2003 and updated by Scottish Widows to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2003 and 31 December 2002. Scheme assets are stated at their market value at the respective balance sheet dates.

	2003	*2002*	*2001*
	%	*%*	*%*
Main assumptions:			
Rate of increase in salaries	4.0	3.7	3.8
Rate of increase in pensions in payment	3.2	3.2	3.3
Discount rate	5.4	5.4	5.5
Inflation assumption	2.7	2.2	2.3

The assets and liabilities of the scheme and the expected rate of return at 31 December are:

		2003		*2002*		*2001*
	Long-term rate of return expected	*Value*	*Long-term rate of return expected*	*Value*	*Long-term rate of return expected*	*Value*
	%	*£000*	*%*	*£000*	*%*	*£000*
Equities	7.8	1,086	8.0	677	8.2	1,725
Bonds	5.4	636	4.7	654	5.2	367
Others	5.4	875	4.7	783	-	112
Total market value of assets		2,597		2,114		2,204
Present value of scheme liabilities		(4,224)		(3,321)		(2,740)
Deficit in the scheme		(1,627)		(1,207)		(536)
Related deferred tax asset		488		362		1461
Net pension liability		(1,139)		(845)		375

Notes to the financial statements
at 31 December 2003

17. Pension commitments (continued)
An analysis of the defined benefit cost for the year ended 31 December 2003 is as follows:

	£000
Current service cost	(321)
Total operating charge	(321)
Expected return on pension scheme assets	127
Interest on pension scheme liabilities	(179)
Total other finance income	(52)
Actual return less expected return on pension scheme assets	182
Experience losses arising on scheme liabilities	(179)
Loss arising from changes in assumptions underlying the present value of scheme liabilities	(325)
Actuarial loss recognised in the statement of total recognised gains and losses	(322)

Analysis of movements in surplus during the year

	£000
At 1 January 2003	(1,207)
Total operating charge	(321)
Total other finance income	(52)
Actuarial loss recognised in the statement of total recognised gains and losses	(322)
Contributions	275
At 31 December 2003	(1,627)

History of experience gains and losses:

		2003
	£000	*% of scheme assets*
Difference between expected return and actual return on pension scheme assets	182	7
Experience loss arising on scheme liabilities	(179)	(4)
Total actuarial loss recognised in the statement of total recognised gains and losses	(322)	(8)

18. Ultimate parent company
The immediate parent undertaking of Owens-Illinois Limited is Owens-Illinois BV, a company registered in the Netherlands.

The company's ultimate parent undertaking and controlling party is Owens-Illinois Inc, which is incorporated in the United States. Copies of its group accounts, which included in the company, are available from One SeaGate, Toledo OH43666, USA.