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New Rec: Goodyear Tire (GT $25.57) March 31, 2002

Position: Sell Target: $15 Timing: 2 (1=aggressive; 5=cautious)

($mm)	Q1 02e	Q2 02e	Q3 02e	Q4 02e	FY 01	FY 02e	FY 03e
Revs	3,443.5	3,533.6	3,451.1	3,420.0	14,147.2	13,848.2	13,860.2
EPS$	(0.07)	0.22	0.20	0.22	(1.27)	0.56	0.96
Y/Y%	-75%	354%	241%	-121%	-609%	-144%	71%
PE					NA	45.3	26.6
PSR					0.295	0.302	0.301
Cons	(0.32)	0.05	0.29	0.34	NA	0.36	1.44

Shares out: 163.3M Mkt Cap: $4.2B FYE: Dec

Summary: Goodyear Tire is a world leader in the manufacture of rubber tires and rubber products, with about $14B in world wide sales and a 24% share of the world tire market.

Manufacturing rubber tires is a commodity business. Like many commodity businesses, industry over capacity has been a problem. This has had a negative impact on profitability. In 1994 GT had revenues of $12.3B, a gross profit margin of 24.6%, and total gross profit of $3B. The business model has been deteriorating in a fairly steady manner since that time, despite rising revenues. In 2000 GT had $14.4B in sales, a 19.3% gross profit margin and $2.8B in gross profit. In 2001 GT had $14.1B in sales, a 17.9% gross margin and $2.5B in gross profit.

GT shares bottomed out at about $16 in September 2001 and have risen to about $26. Analysts have turned more or less optimistic about GT's future. The most bullish forecasts are for GT to return to the good old days (1994) of high gross margins. The most bullish forecasts have GT achieving 24.2% gross margins on $13.6B of revenue by 2003, resulting in EPS of $3.00.

Bullish analysts believe that recent world wide capacity reductions, including some at GT itself, will allow GT to raise prices in a meaningful way and to make the price rise stick without losing market share. They also believe that GT will be able to arbitrage lower oil prices into higher gross profits. They also believe that GT's own recent plant rationalizations will lower costs and will contribute to higher margins.

Experience in similar situations teaches that commodity businesses are difficult to turn around in this manner. A lot of steel making capacity has been shut down in the US and abroad, yet steel prices and margins continue to suffer. Commodities tend to be priced at the margin. Even with capacity reductions there is excess capacity at the margin. As a result, one would expect price pressure to continue, and for the bullish forecast of substantially higher margins to be incorrect.

However, it is in the marketplace and not just in theory that the real outcome of GT's best laid plans will or will not be realized. Bullish observers seem convinced that their story that the wounding of Firestone, and reduced capacity in the tire market will allow GT to raise prices without losing market share will actually happen. We disagree.

The determinant of success in raising prices and maintaining share is mainly in the hands of replacement tire dealers. If these dealers will agree to continue to take the same volume of tires at the higher prices, GT might have a chance of significant earnings improvement. There are about 50 large replacement retail tire dealers in North America, which is GT's key market. They say, first, that the choice of tire is mainly determined either by what tire was on the original equipment that the consumer bought or by what tire the dealer recommends to the customer. However, dealers say that their recommendation is the critical factor in 50% to 90% of cases.

Dealers are also clear on some other important subjects. They are not happy to pay Goodyear higher prices, because that means that the dealer itself has more difficulty maintaining its own margin. Dealers are interested in expanding gross margins, and selling GT tires is not the way. Dealers are very interested in selling more private label tires. Private label tires are of equivalent quality, are less money to the consumer, and produce higher gross profit to the dealer. One large dealer reported that his private label sales were already a significant portion of his volume and that he aims to convert an incremental 20%

of his volume to private label in the next few years.

Dealers do not believe that GT will be able to make the price increases stick and at the same time maintain market share. Since they will largely determine the outcome on this matter, their opinion is important. Indeed, dealers report that there are already discounts being offered ahead of the spring season by GT.

Other pieces of the bull story for GT also do not stand up to scrutiny. For example, an important driver of higher gross margins is supposed to be lower oil prices. However, tire producers have not historically been able to turn lower oil prices into higher profits. Usually the market is competitive enough that the lower oil prices are passed on to the consumer as lower tire prices. Second, oil prices are already not at the low prices that were assumed when the "street" was making its rosy forecasts. The most bullish analysts are assuming $20 oil prices in 2003, down from the $28 price experienced in 2001. However, oil prices are already at $26. We would not want to bet on GT based on $20 oil, which might also imply a soft economy, or based on GT's ability to not be forced to pass the lower oil price on to the consumer.

We also expect Firestone to make up some lost ground. GT's global market share increased to 24% in 2001, from 23% in 2000 and 20% in 1999. This was largely due to Firestone's woes. Analysts typically estimate that Firestone lost about half of its market share. Firestone had 7.5% market share in the NA replacement market in 2001. We expect Firestone to regain at least half of its lost market share by 2004.

Bullish analysts also like GT's free cash flow prospects for 2002 and 2003, projecting $240M free cash generation in 2002 and $280M in 2003. We disagree. We project that the company will generate negative free cash flow of $205M in 2002 and positive free cash flow of $75M in 2003. Analysts point to GT's success in generating cash in 2001. It is true that GT was able to generate cash, but it was mainly by lowering inventory and accounts receivable as its business actually shrank in size. In reality, the way we see it, by collecting on its accounts receivable in 2001 and by shrinking inventory as sales declined, GT was really just realizing the profits from the previous years. If GT is to try to expand its business, it will have to invest in inventory and in receivables once again. This fact is at odds with the bullish story that GT can actually increase revenues and generate free cash.

At the end of 2001 GT had $2.6B of on balance sheet debt net of cash. In addition, and importantly, GT has a major off balance sheet liability problem. There is about $1B of unfunded off balance sheet pension liabilities and about another $500M of other benefits liabilities. Moreover, GT's pension plan rate of return assumption, which has just been raised to 10% from 9.5% seems unrealistically high. Had the company used a lesser assumed rate of return on plan assets, its unfunded balance would have been higher.

We estimate that GT will earn about $0.56 per share in 2002 and about

$0.96 in 2003. This contrasts with "street" estimates between $0.34 an $0.75 in 2002 and between $0.74 and $3.00 in 2002. We project that GT will have negative cash flow in 2002, and only slightly positive cash flow in 2002. On an earnings basis it is difficult to see why GT shares should be worth more than $15. On an enterprise value to EBIT basis, not considering any of GT's off balance sheet liabilities, we calculate that GT stock is worth about $17 per share. However, this valuation does not take into account another $850M of securitized receivables that are off balance sheet, nor does it include $1.6B of off balance sheet pension and other benefits liabilities. If we include the off balance sheet pension and benefits liability in our enterprise value, it suggests a share price of only $7.55. If we also include the securitized receivables in our calculation, it suggests the company is worth only $2.33. GT's securitized receivables are not sold without recourse. GT "services" the receivables, and GT pays interest on the securitizations that appears in other interest/other expense. In effect, this is really a debt facility and we think it should be viewed as debt. We are initiating coverage with a $15 price. However, given GT's on and off balance sheet problems, the shares could go much lower longer term.

Background:

Goodyear is one of the world's leading manufacturer of tires and rubber products, engaging in operations in most regions of the world. Goodyear's 2001 net sales were $14.1 billion. The company has about 24% of the worldwide tire market. Goodyear's net loss for 2001 was $203.6 million. Goodyear's worldwide employment averaged 100,779 during 2001.

The company's operating segments are North American Tire, European Union Tire, Eastern Europe, Africa and Middle East Tire, Latin American Tire and Asia Tire (collectively the "Tire Segments"), Engineered Products and Chemical Products. Each of the five regional tire business segments is involved in the development, manufacture, distribution and sale of tires. Certain of the tire business segments also provide related products and services, which include retreads, automotive repair services and merchandise purchased for resale. Engineered Products manufactures and sells belts, air springs, and other miscellaneous products and services for motor vehicles. The company's chemical products segment develops, manufactures, and sells synthetic rubber, various resins and organic chemicals used in rubber and plastic processing, and other chemical products for industrial customers worldwide. It also sells a portion of its product to the tire segments, which use the products in tire production.

Goodyear competes with other tire manufacturers on the basis of product design, performance, price and reputation, warranty terms, customer service and consumer convenience. Goodyear-brand tires enjoy a high recognition factor worldwide and have a reputation for performance, high quality and value. Goodyear believes Dunlop-brand tires have a reputation for performance, quality and value. Kelly-brand, Fulda-brand, Debica-brand, Sava-brand and various other house brand tire lines offered by Goodyear, and tires manufactured and sold by Goodyear to private brand customers, compete primarily on the basis of value and price.

Goodyear’s North American Tire (NAT) segment is the company’s primary profit driver. It accounts for about 50% of revenues and lately, a smaller portion of the company’s EBIT, around 30%. Goodyear has increased its share of the NA replacement market by about 4.5% percentage points in the past two years, primarily as a result of the Firestone debacle. Yet, it has been unable to make any money during this time.

The company’s major competitors in the North American tire market are Bridgestone/Firestone, Michelin/UniroyalGoodrich, Continental/General and Cooper Tire, each having manufacturing facilities and other operations in North America. Other significant competitors in North America are Pirelli, Toyo, Yokohama, Kumho and Hankook, who import most of the tires they sell, and various regional tire manufacturers that export tires to North America.

About 60% of the tires that Goodyear sells are sold under brand names with the remaining 40% being sold under private labels. The company sells tires to retailers, distributors, and OEMs. Tire companies typically sell tires to OEMs at cost. This helps them support the manufacturing facilities as overhead costs are absorbed, which leads to higher profitability in the replacement market. As a result, the manufacturers rely on the replacement market to make money. About 40% of car owners replace their tires with the OEM's equipment. This is also an incentive to sell tires to OEMs as there is a chance that these sales will lead to future sales in the replacement market.

Discussion:

1. Goodyear should not meet “street” financial expectations.

a. Bullish analyst expectations for the North American replacement market (unless otherwise noted): The current stock price appears to be based on the most bullish of expectations. Some analysts think that Goodyear will make $3.00 in 2003. However, there are several assumptions underlying the "street’s" expectations that we think are unreasonable, which are significantly decreased raw material costs and unabsorbed overhead costs, consistent North American replacement market share, and increased pricing power in the North American replacement market. We think that the company should be able to make $0.96, although that too, may be tough, considering the current status of the company and the environment.

b. Bullish analysts assume that Goodyear will maintain consistent market share in the North American replacement market for the next several years. Based on our research and data obtained from the Rubber Manufacturer’s Association and Modern Tire Dealer, we estimate that Goodyear held 31% of the North American replacement tire market in 2001, an increase from 29% in 2000 and from about 27% in 1999. This estimate is based on 240M replacement unit sales and excludes units sold under the Ford recall. About 80% of this replacement market is for passenger tires, 12% for light truck, and the remaining 8% for medium truck tires. Goodyear’s market share is comprised of the

Goodyear, Dunlop, and Kelly brands as well as several private label tires that Goodyear sells. We think that Goodyear will lose about one percentage point of market share per year for the next several years due to Firestone recapturing some lost market share, increased market penetration by smaller tire manufacturers, and increased penetration of private label tires. We project the replacement market will grow 1% in 2002 and 2% in 2003, excluding Firestone recall volume.

Between 2000 and 2001, about 15 million Firestone tires were recalled due to problems on the Ford Explorer (the recall program ends March 31, 2002). About 60% of the tires recalled were replaced with Goodyear tires. Apart from the units recalled, the recall caused a flight from the Firestone brand. Analysts typically estimate that Firestone lost half its total market share in two years. Firestone's market share in the NA replacement market in 2001 was 7.5%, according to Modern Tire Dealer. Much of this lost market share was gained by Goodyear and Michelin. We spoke with several tire dealers, most of them Goodyear customers. Most of our sources thought that Firestone will recapture at least half of its market share losses. They generally attributed this viewpoint to Firestone's loyal dealer network and Bridgestone/Firestone's historical ability to offer quality tires at competitive prices. As an aside, some investors may be surprised to learn that tire dealers generally think that the Ford/Firestone debacle was a Ford design problem, not a Firestone quality problem.

In February, Firestone introduced the "Affinity". The Affinity is an H-rated tire tested recommended for speeds up to 130 mph that is sold at the price point of a T-rated tire, which is recommended for speeds up to 118 mph, two speed ratings below the H-rated Affinity. The Affinity has only recently begun shipping in March of 2002. This new tire will compete primarily with Goodyear's Eagle II T-rated tire, among others.

Through the first two months of 2002, Firestone's unit volume was up 15%, considerably more than the replacement market's 8% increase and well above Goodyear's "almost flat" unit volume in the replacement market. Bear in mind that this is before the introduction of the Affinity, which began shipping in March. Bridgestone's current goal is to recapture one percentage point of the consumer tire market in 2002. With Goodyear in its sights, it is likely that a significant portion of this percentage point will be seized from Goodyear. Given its success to date this year, future goals could be more aggressive.

Many dealers do not speak highly of their dealings with Goodyear. First of all, dealers don't make much money with Goodyear as it demands a premium price over most other brands (and private labels). Goodyear also sells to mass merchandisers such as Penske, Sears and Walmart, that discount product substantially. As a result, dealers don't have much pricing power with Goodyear as they must compete with mass merchandiser pricing. Secondly, dealers make more money by selling smaller brand tires such as Cooper or Toyo and they make even more money when they sell private label brands. Most of our dealer sources have initiatives in place to sell either more Cooper, more second tier tires, or more private label tires, or a combination of the three. Lastly, many tire dealers have had problems with Goodyear as a distributor, primarily due to its customer service and delivery habits.

Many tire dealers with whom we spoke are focusing on selling private brand tires, such as those produced by TBC Corp. (TBCC). There is a big reason that dealers want to sell more private label tires: higher profit. According to our dealer sources, there is a massive difference in the cost of buying private label tires versus buying Goodyear or other premium brands. For instance, one dealer asserted that he could buy an H-rated Goodyear tire for a Ford Taurus for between $65 and $70 while that same dealer would pay only $35 for a private label tire of similar quality and specs. By selling these private label tires, dealers can generate more profits while passing on some or all of the price difference to the consumer.

The dealers with whom we spoke think that private label tires are comparable in quality to premium brand tires. In some cases, our sources said that some private label tires are better quality than premium brand tires. One source remarked that there are no poor quality tires made anymore. Often, private label tires are manufactured in the same factories that produce the premium brand tires. Remember, 40% of Goodyear's unit sales are private label tires.

For those who think the premium brand advertising will block the sales of private label tires, our sources said that between 50% and 90% of tire sales are driven by the tire dealer. In other words, in most cases, the manufacturer does not sell the tire, the retailer does. One Firestone representative recently asserted that 70% of consumers don't know which tire they will buy until they are already in the store. Some of the dealers with whom we spoke said that their networks establish much of the brand identity in their areas and should they choose to switch brands, they would not have a problem selling alternatives, including private label brands.

All of our sources that sell private brand tires intend to make them a larger percentage of their total unit sales, at least partly at the expense of Goodyear. In addition, most dealers that don't currently sell private label tires expressed interest in expanding their product lines to private labels.

Goodyear provides investors with monthly updates. In the last update, provided on March 20, the company informed investors that industry consumer replacement shipments in North America were 8% above prior year levels, but Goodyear's market share was almost flat. First of all, we wonder, what does "almost flat" mean? Does it mean that it was less than flat? Regardless, "street" analysts have attributed the discrepancy to the pre-buying of Goodyear tires in December ahead of the January 1 price increase, while the Bridgestone and Michelin price increases were not implemented until February 1 and March 1. Some of our sources did indicate that they pre-bought Goodyear tires while others did not. While this does make some sense, the discrepancy appears to be considerable and may not be due to pre-buying.

We estimate that that Goodyear will lose one percentage point of its North

American replacement market share in each of the next two years due to the factors identified above. We estimate that for every percentage point of market share that Goodyear loses, gross margin and EBIT will be reduced by $61M. This is based on variable profit of $25 per tire, which may be conservative. A recent “street” report estimated average variable profit per tire at around $35. We estimate in our model that Goodyear loses only one percentage point of market share per year. Any additional market share one percentage point losses, which are possible, would reduce estimated 2003 EBIT of $546M by $61M, or by 11%. This is based on a $25 variable profit per tire. We estimate ASPs to GT on an average North American replacement tire are about $64.

c. “Street” analysts assume that Goodyear will report gross margin results that we estimate will be unattainable. The high expected margins are supposed to be the result of decreased raw materials prices, increased pricing, and decreased unabsorbed overhead costs. When all of these are taken into account, the “street” thinks that Goodyear’s gross margin will be over 24% in 2003. However, based on the historical gross margins and more reasonable expectations, the "street" appears overly optimistic.

Historical gross margin analysis: $MM

(per GT10-Ks)	1994	1995	1996	1997	1998	1999	2000	2001
Revenues	12,288	13,166	13,401	13,066	13,082	13,356	14,417	14,147
COGS	9,271	10,093	10,412	10,511	10,210	10,832	11,637	11,619
Gross profit	3,016	3,072	2,988	2,554	2,871	2,523	2,779	2,527
Gross margin	24.6%	23.3%	22.3%	19.5%	22.0%	18.9%	19.3%	17.9%

The last time Goodyear’s gross margin was at 24% was 1994. Since then, gross margins have declined consistently. In fact, the best gross margin recorded by Goodyear in the past three years was 19.3% in 2000, when Goodyear’s plant utilization was 95%. We think that it will be difficult for GT management to turn the clock back to 1994.

Analysts think that Goodyear could realize between $32M and $60m in raw material cost savings from a $1 decline in oil price. In addition, some Goodyear analysts think that the oil price will drop about by $8 from about $28 in mid 2001 to about $20 in 2003. According to a Goodyear presentation, however, a $1 decline in oil price would save the company between $25M and $30M, or about $27.5M. This is less than "street" analysts assume. Moreover, oil is currently about $26, well off the $20 level. Oil analysts are expecting the price of oil to be around $24 in 2003, and could easily see the high $20s if there are more production cutbacks in the Middle East, if the economy rebounds, or if the US engages any Middle Eastern countries in war (including Iraq). For purposes of our projections, we will assume a $4 decline in average oil price from 2001 (with a three month lagging impact on GT), which would result in a $24 oil price for total raw materials savings of about $110M in 2002 versus 2001, and with no further benefit in 2003.

Goodyear announced a 5% price increase for tires sold to the NA replacement market, effective January 1, 2002. Analysts think that this new price increase will take hold because tire manufacturers successfully raised prices in

2001. Average selling price per tire, according to GT's recent New York presentation, was up 4.1% in NA and 2.2% in rest of world in 2001. According to Goodyear, the 4.1% increase was driven by a 7% increase in passenger replacement market prices.

NA replacement market ASP calculation:

OWS estimates ($mm except unit and ASPs)	1999	2000	2001
Total NA tire sales	$6,648.6	$7,111.3	$7,152.3
Less estimated NA tire services revenue	($830.0)	($800.0)	($850.0)
Less estimated NA OEM tire revenue	($1,380.1)	($1,346.8)	($1,195.1)
Estimated NA replacement tire rev.	$4,438.5	$4,964.5	$5,107.2
NA replacement units sales(mm)	71.8	79.5	79.7
Estimated NA replacement ASPs	$61.82	$62.45	$64.08
NA ASP estimated dollar increase		$0.63	$1.63
NA ASP estimated percent increase		1.0%	2.6%

We estimate that Goodyear was able to realize higher replacement market prices, on average, by only 2.6% in 2001 on an announced 7% total list price increase implemented on two different dates. As one of the price increases was executed in mid-year, it is likely that Goodyear has by now actually captured more than the 2.6%, but less than the 7% announced. Of the 5% additional price increase implemented in the first quarter of 2002, we wonder, what percent of it will Goodyear be able to make stick?

We spoke with several Goodyear dealers. They indicate that the January price increase is already crumbling. Most of these customers have already been offered discounts by Goodyear as of the middle of March. These discounts have not all necessarily been in the form of "tire" discounts, as some discounts have been offered in the forms of better financing and warehousing arrangements. Nevertheless, in the words of a Goodyear customer, "I consider that a tire discount, I don't care what they call it". In addition to better financing and warehousing incentives, some customer have already been offered pre-buying offers for April. Goodyear does not deny that there are discounts out there, but it maintains that spring buying discounts are part of the ordinary course of business, and is not inconsistent with the claim that that it is maintaining its newly implemented pricing. However, this does not appear to be the way that tire dealers perceive the situation.

We think that the primary factor that allowed the 2001 price increases to stick was the increase in oil prices in 2000. All tire companies felt gross margin pain and all raised prices to account for higher raw material costs. However, oil prices have come off of their average quarterly highs of around $32 for 4Q00 and are currently at around $26. It appears that some smaller tire companies are already passing on oil cost savings to customers, which is what has historically occurred. Regardless, we included a 4% realized ASP increase for NA replacement tires in our model over average 2001 prices, which is realized in two increments of 1.5% in the first quarter and 2.5% in the second quarters of 2002.

Bullish analysts expect Goodyear to realize about $300M in 2002 cost savings through better overhead absorption and other $100m of savings from reduction of its fixed cost structure. While Goodyear should save some money as a result of its 2001 rationalization, the company's guidance in its 10-K and at investor meetings indicates it will not attain such lofty savings. Goodyear has indicated it expects to save an incremental $100M in 2002 as a result of the 1st quarter 2001 rationalization (restructuring) and $35M of incremental EBIT in 2002 as a result of the Q4 rationalization. However, the company also expects pension and benefits costs to increase by around $100M. This would result in net cost savings of only $35M, which we use for our estimated cost savings.

The following calculation represents what we think Goodyear would have reported for gross margin in 2001, had the conditions that we think will happen in 2002, happened in 2001. For the purpose of the analysis, we deduct the estimated benefit of the Ford recall, we add the anticipated raw materials cost savings, we include the estimated increased pension and benefits cost, we include our rationalization savings estimate, and we assume the benefit of a 4% increase in NA replacement ASPs, while we reduce the company's NA replacement market share by one percentage point. The table below shows the calculation:

Estimated 2001 gross margins adjusted for one time benefits and assuming anticipated cost savings in 2002:

OWS estimates ($mm)	Revenue	COS	Gross Margin
2001 per 10-K	$14,147.3	$11,619.5	$2,527.80
Ford recall	(400.0)	(305.0)	(95.00)
Anticipated raw materials cost sav.	-	(110.0)	110.00
Pension and benefits costs	-	100.0	(100.00)
1Q rationalization	-	(100.0)	100.00
4Q rationalization	-	(35.0)	35.00
4% increase in NA replacement ASPs	190.0	-	190.00
1% less NA replacement market share	(136.0)	(75.0)	(61.00)
Hypothetical 2001 with 2002 savings and other changes	$13,801.3	$11,094.5	$2,706.80
Hypothetical 2001 gross margin			19.6%

Our adjusted gross margin is 19.6%. We have modeled gross margin increasing to 20.1% by the end of 2002, and remaining at 20.1% in 2003 in our projections. This may be quite optimistic, as indicated by the historical gross margin as we detailed above and as indicated by several excerpts from Goodyear's 10-K, which reads: "if reduced levels of original equipment demand continue as anticipated, resulting lower levels of plant utilization would increase unit costs, which costs may not be recovered in the market". This sounds like a warning that should be heeded. Certainly, GT's prior years rationalizations do not appear to have improved gross margins.

Goodyear has indicated it is considering giving up some OEM business due to the low amounts of profits it generates. However, OEM business helps reduce unit cost significantly through absorption of costs. Is Goodyear really considering giving up OEM business? Or is the company anticipating losing OEM business due to pricing competition? We have heard that Ford is interested in mending its relationship with Firestone. In addition, Cooper appears to be considering further discounts to OEM customers as indicated in its most recent 10-K, which says: “in addition to reductions that took effect at the beginning of 2002 under long-term agreements, the segment has entered into discussions with certain of its customers, including Ford Motor Company, its largest customer, for additional price reductions. . .The segment believes that these pricing pressures are largely due to the lack of profitability among global automobile manufacturers. This is a concern to the segment as it is likely to result in continued efforts by the OEMs to obtain price reductions from their suppliers.” Any OEM business or pricing that Goodyear gives up could adversely impact its gross margins. Losing share of OEM business is also not good for the replacement business, since many replacement buyers buy the OEM brand.

Bullish analysts also appear to be assuming consistent labor costs. However, Goodyear indicates that it expects labor costs to increase in the normal course of business. Approximately 12% of Goodyear’s employees re covered by a master collective bargaining agreement with the United Steel Workers of America. This agreement will expire on April 19, 2003. This could be a short term catalyst for increased labor costs. Nevertheless, we have modeled consistent labor costs.

d. We have given Goodyear the benefit of the doubt in several instances. These are that it will attain a 4% NA replacement price increase with no giveback for oil savings, $110M in oil savings, that gross margins will improve even though utilization is expected to decline, and that labor costs will remain consistent, which we think is unrealistic. Nevertheless, we still think that Goodyear can only make about $0.96 in 2003.

2. Analysts dismiss rationalization expenses as non-recurring. However, Goodyear has recorded rationalization expenses in all of the last six years, although in one year it was income primarily due to facility sales.

Historical rationalizations:

($mm)	1996	1997	1998	1999	2000	2001
Rationalization exp/(inc)	872.0	265.2	(153.5)	171.6	124.1	206.8

On average, Goodyear has recorded an average of $250M of rationalization expenses each year, and each year, these expenses have been ignored by analysts. The fact is that rationalizations appear to be recurring. With industry utilization at an estimated 84% in 2001 and expected to decline at least temporarily, and with some companies expanding capacity, it appears that it will continue to be a recurring part of the business. Goodyear’s capacity utilization was 89% in 2001.

Global capacity utilization:

(mm Units)	1999	2000	2001
Estimated global production	1,100	1,150	1,130
Estimated global capacity	1,330	1,400	1,350
Global utilization	82.7%	82.1%	83.7%

If Goodyear continues to “rationalize”, these expenses will continue to be a significant drag on actual reported earnings and equity, even though they may be called one time charges. We estimate that Goodyear will generate pre-tax income of $124M in 2002 and $213M in 2003. Goodyear could be in a significant net loss position in any of the upcoming two years, should it choose to record any further rationalization expenses similar to those it has incurred in the recent past.

3. Goodyear has weak free cash flow. In Goodyear’s business, companies must constantly spend money upgrading product lines. Maintenance capital spending is also significant. According to Goodyear, about half of its 2001 capex was for maintenance. Free cash flow is a good metric for estimating GT's profitability, while EBITDA is not.

Weak cash flow:

Per company filings	1996	1997	1998	1999	2000	2001
Net Income	101.7	558.7	682.3	243.2	40.3	(203.6)
Miscellaneous items:						
D&A	419.9	453.9	487.8	581.7	630.3	636.7
A/R	(106.2)	(101.7)	35.5	29.4	97.4	214.6
Securitization proceeds	0	0	0	(16.0)	38.6	249.1
Inventory	(5.5)	(107.1)	(313.6)	273.4	(382.6)	407.8
Operating cash flow	856.6	1,052.4	439.0	634.7	509.8	1,266.5
Capex	617.5	699.0	838.4	805.0	614.5	435.4
Free Cash	239.1	353.4	(399.4)	(170.3)	(104.7)	831.1
Total free cash for the 5 years ended 12/00					(81.9)	NA
Total free cash for the 6 years ended 12/01						$749M
Annualized 6 year free cash						$125M

Goodyear has recorded negative free cash for three of the last four years, negative $82M for the five years ended December 2000, and a cumulative positive $750M for the six years ended December 2001. However, the only way it was able to generate free cash in 2001 was by liquidating assets built up in previous years. The company generated a significant amount of its free cash flow by liquidating A/R and inventory, contributing $622M to the total 2001 free cash generated of $831M. The company also had an additional $249M of receivables under a securitization in excess of last year’s amount. However, the A/R and inventory reductions both appear to be one time items. The A/R securitization is, in effect, additional debt drawn down, as the company pays a servicing fee (interest) on the receivables outstanding under the line. If we reduce 2001 free cash by the changes in inventory, A/R, and the incremental securitized receivables, we are again, to no surprise, left with negative $40M of free cash.

Cash flow projections:

(OWS estimates)	2002	2003
Net income	92,733	160,051
Depreciation and amortization	600,485	612,585
Working capital	(400,000)	(200,000)
Operating cash	295,220	574,639
Capex	500,000	500,000
Free Cash	(204,780)	74,639

We estimated that Goodyear will grow its working capital by about $400M in 2002 and $200M in 2003. Based on our projections as well as these working capital assumptions, we estimate that Goodyear will record negative free cash of $205M in 2002 and positive $74M in 2003.

4. The company could run into significant problems with its unfunded pension and post-retirement benefits obligations.

Per note 15 of Goodyear's December 31, 2001 10-K, the company's pension was underfunded by $1.0B, a $737M increase from the prior year. There was a significant swing in the unrecognized income/(loss) line, which is not reflected on the company's balance sheet. This is effectively an off balance sheet liability. It may be that the liability is so large is because of the recently weak stock market performance. However, the preceding years of outstanding performance in the late 1990s is the primary reason why pension costs were probably relatively small. According to the company's 10-K, it may need to fund a significant amount of this liability in 2003. Regardless of when this pension liability must be funded, we think that it should be viewed as a component of equity and as an off balance sheet liability.

Compounding the issue of the unfunded pension liability is the assumed long term rate of return on plan assets, which is 10%, an increase from 9.5% in the prior year. According to a Big 5 audit partner with whom we spoke, Goodyear's assumed rate of return on plan assets appears artificially inflated, which makes the unfunded portion appear smaller. He commented that Goodyear may not have gotten away with using that rate if he had been their audit partner.

A significant portion of this pension liability is domestic. There was recently an article in the Beacon Journal that suggested the United Steelworkers Union, which represents a significant amount of Goodyear employees, is looking into the pension issue to ensure its members their pensions are protected. We don't know what if any implications this may have for Goodyear.

Per note 14 of the 10-K, the company also has an unfunded post-retirement benefits obligation in excess of plan assets in the amount of $560M, a significant increase from the prior year unfunded balance of $290M.

5. Goodyear's balance sheet and off balance sheet liabilities should concern investors.

Balance sheet analysis: ($mm)	2000	2001
Debt per balance sheet	3,586.0	3,568.0
Cash	(252.9)	(959.4)
Net debt per balance sheet	3,333.1	2,608.6
Off balance sheet debt		
Securitized receivables	604.2	851.8
Unfunded Pension liability	301.8	1,038.8
Unrecognized postretirement benefits liability	290.4	559.8
Total balance sheet and off balance sheet debt	4,529.5	5,059.0
Balance sheet equity	3,503.0	2,864.0
Unfunded pension	(301.8)	(1,038.8)
Unrecognized postretirement benefits liability	(290.4)	(559.8)
Adjusted book value	2,910.8	1,265.4
Goodwill	588.4	569.1
Adjusted tangible book value	2,322.4	696.3
Balance Sheet debt to equity	1.0	0.9
Total debt/Adjusted equity	1.6	4.0
Total debt/Adjusted tangible book value	2.0	7.3

Goodyear has a substantial amount of debt, both on and off balance sheet. Net debt on the balance sheet has declined primarily because of the large amount of cash on the balance sheet. This is the result of a one time cash flow benefit as detailed in the cash flow section above. We expect that the recent squeeze of working capital may be reversed, in which case the net debt on the balance sheet would increase from its December 31, 2001 amount.

Balance sheet net debt to equity has declined slightly from 1.0X at December 2000 to 0.9X at December 2001. However, the company's off-balance sheet debt has grown considerably due to the increased unfunded pension liability, increased A/R securitizations, and increased unrecognized post retirement benefits obligations. Our estimate of total debt over our adjusted tangible book value increased significantly from 2.0X at December 2000 to 7.3X at December 2001.

6. In December of 2001, S&P downgraded Goodyear's debt from investment grade to junk, one step below investment grade. This could adversely affect future borrowing costs. Even more disconcerting to investors now should be Moody's decision in February to place Goodyear's debt under review for possible downgrade. This stock is currently rated investment grade by Moody's, but would lose its investment grade status should it be downgraded one notch. One source has indicated that should Moody's downgrade Goodyear's debt, Goodyear may lose access to it's A/R securitization facility.

7. Some bulls think that this company should be valued on Enterprise value over EBITDA. Others use a $3.00 EPS 2003 earnings target to justify valuations. We

think that the best way to value this company is EV over EBIT. We think that EBIT the best metric for valuation as the company consistently must make additional capital expenditures which is reflected as depreciation and amortization expense. As a result "DA" is not available as a cash return to investors. We think a 10X multiple of estimated 2003 EBIT would provide a generous valuation for GT. Some analysts exclude the securitized receivables from their calculations of enterprise value. We think they should be included, as the company pays interest on its securitized receivables which is included in other income/expense (below EBIT). We also include the unfunded pension and benefits liabilities, as these are effectively off balance sheet liabilities and should be included as obligations of the company.

Valuation:

Balance sheet debt net of cash 12/31/01	2,608.6(A)
Securitized receivables 12/31/01	851.8
Unfunded pension and benefits off balance sheet liabilities 12/31/01	1,598.6 (B)
Adjusted Debt	5,059.0(C)
Estimated 2003 EBIT	544.0
Implied Enterprise value (10X EBIT)	5,440.0(D)
Shares out	163.3
Implied equity value, excluding all off balance sheet liabilities	2,831.4(C-A)
Implied share value, excluding off balance sheet liabilities	$17.34
Implied equity value, including pension & benefits liabilities but excluding securitization	1,232.8 (D-(A+B))
Implied equity value per share, including pension & benefits liabilities but excluding securitization	$7.55
Implied equity value, including off balance sheet liabilities	381.0 (D-C)
Implied equity value per share, including off balance sheet liabilities	$2.33

If the company had no off balance sheet liabilities, we estimate that it might be worth $17 per share, based on a metric of EV=10X 2003 EBIT. However, the company has nearly $2.5B of off balance sheet liabilities between its securitization and unfunded pension and benefits obligations. If we consider the pension and benefits liabilities in our enterprise value, it would suggest the company is worth about $8 per share. If we also include the company's securitization facility, on which it pays interest on amounts outstanding quite similar to a debt facility, we estimate the shares would be worth only $2. However, we are setting our initial price target at $15. We estimate that the company will record $0.96 of net income in 2003, resulting in a target price that is 14X 2003 earnings.

8. Financial assumptions and model:

Our North American replacement market projections assume that Goodyear's market share in North America declines by one percentage point each year. We project that international sales and NA OEM sales experience modest fluctuations that are modeled similar to "street" expectations. We project gross margins to increase from 17.95% in 2001 to 20.1% in 2003, remaining at that level during 2003. SG&A expense are consistent with "street" expectations. Depreciation and amortization has been adjusted for the future for amortization expense that will no longer be incurred as a result of SFAS 142. Interest expense assumes that the company uses half its cash at the end of the year to pay down debt and that the company uses $400M of working capital in 2002 and $200M more in 2003. Our interest expense is about 20% less than "street" projections as the “street” does not appear to have adjusted for potential debt pay-down with excess cash. We have assumed a tax rate of 25%, which may prove conservative given the company’s federal tax rate of 35%, if the company ever makes money again.

INCOME STATEMENT ($mm)	03/31/01	06/30/01	09/30/01	12/31/01
North Amer tire	1,624,400	1,828,000	1,957,200	1,742,700
EU tire	799,300	759,700	770,700	798,300
East Euro, Africa, & Mid East	163,400	177,900	181,700	180,100
Latin Amer tire	257,700	250,700	246,400	257,800
Asia tire	119,000	128,400	122,800	123,700
Engineered products	299,400	300,900	267,400	254,600
Chemical products	291,600	271,600	260,900	213,200
Interco elim	(140,600)	(134,700)	(129,200)	(97,800)
Total revenues	3,414,200	3,582,500	3,677,900	3,472,600
Cost of Goods Sold	2,785,600	2,912,100	2,994,300	2,927,500
Gross profit	628,600	670,400	683,600	545,100
General/Admin.	387,500	403,200	413,900	407,500
D&A	160,400	162,600	154,100	159,600
EBIT	80,700	104,600	115,600	(22,000)
Rationalizations	79,000	-	-	127,800
Interest expense	68,700	74,500	77,700	71,500
Other expense/(income)	(6,500)	8,400	21,300	(11,400)
FX loss/(gain)	(9,900)	(5,400)	(2,600)	18,000
Equity loss	5,100	4,100	4,800	26,600
Minority interest	7,800	8,700	3,100	(19,400)
Income Before Taxes	(63,500)	14,300	11,300	(235,100)
Income Taxes	(16,800)	6,500	2,000	(61,100)
Net income from operations	(46,700)	7,800	9,300	(174,000)
Diluted EPS	(0.30)	0.05	0.06	(1.07)
Shares Outstanding	158,200	161,200	161,600	163,100

Y/Y %	03/31/01	06/30/01	09/30/01	12/31/01
North Amer tire	-6.1%	4.0%	6.8%	-2.7%
EU tire	-8.6%	-5.3%	1.5%	4.8%
East Euro, Africa, & Mid East	-14.5%	-8.1%	-15.5%	-6.8%
Latin Amer tire	0.0%	-5.2%	-6.4%	-1.8%
Asia tire	-13.8%	-6.9%	-4.7%	3.3%
Engineered products	-6.7%	-1.8%	-5.4%	-3.6%
Chemical products	4.9%	-7.6%	-5.4%	-24.5%
Interco elim	11.4%	-9.4%	-6.3%	-34.4%
Total revenues	-6.8%	-0.7%	1.6%	-1.5%
Cost of Goods Sold	-5.1%	2.2%	0.9%	1.5%
Gross profit	-13.9%	-11.4%	5.1%	-15.2%
General/Admin.	-3.0%	2.5%	5.1%	-3.1%
D&A	0.0%	1.8%	-0.9%	3.2%
EBIT	-52.6%	-48.6%	14.1%	-132.6%
Rationalizations	NA	NA	NA	8.1%
Interest expense	10.6%	6.6%	5.4%	-7.0%
Other expense/(income)	-266.7%	-7.7%	384.1%	-209.6%
FX loss/(gain)	-294.1%	285.7%	-10.3%	-340.0%
Equity loss	112.5%	1266.7%	108.7%	52.9%
Minority interest	-53.0%	-20.2%	-69.0%	385.0%
Income Before Taxes	-179.1%	-87.0%	-10.3%	63.3%
Income Taxes	-152.3%	-80.2%	-145.5%	45.5%
Net income from operations	-196.9%	-89.9%	-45.3%	70.6%
Diluted EPS	-197.2%	-90.0%	-46.4%	64.8%

As a % of revenue	03/31/01	06/30/01	09/30/01	12/31/01
North Amer tire	47.6%	51.0%	53.2%	50.2%
EU tire	23.4%	21.2%	21.0%	23.0%
East Euro, Africa, & Mid East	4.8%	5.0%	4.9%	5.2%
Latin Amer tire	7.5%	7.0%	6.7%	7.4%
Asia tire	3.5%	3.6%	3.3%	3.6%
Engineered products	8.8%	8.4%	7.3%	7.3%
Chemical products	8.5%	7.6%	7.1%	6.1%
Interco elim	-4.1%	-3.8%	-3.5%	-2.8%
Total revenues	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	81.6%	81.3%	81.4%	84.3%
Gross profit	18.4%	18.7%	18.6%	15.7%
General/Admin.	11.3%	11.3%	11.3%	11.7%
D&A	4.7%	4.5%	4.2%	4.6%
EBIT	2.4%	2.9%	3.1%	-0.6%
Rationalizations	2.3%	0.0%	0.0%	3.7%
Interest expense	2.0%	2.1%	2.1%	2.1%
Other expense/(income)	-0.2%	0.2%	0.6%	-0.3%
FX loss/(gain)	-0.3%	-0.2%	-0.1%	0.5%
Equity loss	0.1%	0.1%	0.1%	0.8%
Minority interest	0.2%	0.2%	0.1%	-0.6%
Income Before Taxes	-1.9%	0.4%	0.3%	-6.8%
Income Taxes	-0.5%	0.2%	0.1%	-1.8%
Net income from operations	-1.4%	0.2%	0.3%	-5.0%

INCOME STATEMENT ($mm)	3/31/02	6/30/02	9/30/02	12/31/02
North Amer tire	1,693,715	1,801,499	1,721,842	1,693,546
EU tire	770,000	750,000	745,000	740,000
East Euro, Africa, & Mid East	180,550	181,002	181,454	181,908
Latin Amer tire	245,000	245,613	246,227	246,842
Asia tire	123,824	123,948	124,071	124,196
Engineered products	275,000	275,413	275,826	276,239
Chemical products	290,500	291,081	291,663	292,246
Interco elim	(135,000)	(135,000)	(135,000)	(135,000)
Total revenues	3,443,589	3,533,554	3,451,083	3,419,977
Cost of Goods Sold	2,806,525	2,849,811	2,767,768	2,732,562
Gross profit	637,064	683,743	683,314	687,415
General/Admin.	402,000	399,000	403,000	401,000
D&A	149,000	149,745	150,494	151,246
EBIT	86,064	134,998	129,821	135,169
Rationalizations	-	-	-	-
Interest expense	68,000	63,000	63,000	63,000
Other expense/(income)	11,000	11,000	11,000	11,000
FX loss/(gain)	10,000	-	-	-
Equity loss	5,000	4,900	4,802	4,706
Minority interest	8,000	8,000	8,000	8,000
Income Before Taxes	(15,936)	48,098	43,019	48,463
Income Taxes	(3,984)	12,024	10,755	12,116
Net income from operations	(11,952)	36,073	32,264	36,347
Diluted EPS	(0.07)	0.22	0.20	0.22
Shares Outstanding	163,600	164,100	164,600	165,100

Y/Y %	3/31/02	6/30/02	9/30/02	12/31/02
North Amer tire	4.3%	-1.4%	-12.0%	-2.8%
EU tire	-3.7%	-1.3%	-3.3%	-7.3%
East Euro, Africa, & Mid East	10.5%	1.7%	-0.1%	1.0%
Latin Amer tire	-4.9%	-2.0%	-0.1%	-4.3%
Asia tire	4.1%	-3.5%	1.0%	0.4%
Engineered products	-8.1%	-8.5%	3.2%	8.5%
Chemical products	-0.4%	7.2%	11.8%	37.1%
Interco elim	-4.0%	0.2%	4.5%	38.0%
Total revenues	0.9%	-1.4%	-6.2%	-1.5%
Cost of Goods Sold	0.8%	-2.1%	-7.6%	-6.7%
Gross profit	1.3%	2.0%	0.0%	26.1%
General/Admin.	3.7%	-1.0%	-2.6%	-1.6%
D&A	-7.1%	-7.9%	-2.3%	-5.2%
EBIT	6.6%	29.1%	12.3%	-714.4%
Rationalizations	NA	NA	NA	-100.0%
Interest expense	-1.0%	-15.4%	-18.9%	-11.9%
Other expense/(income)	-269.2%	31.0%	-48.4%	-196.5%
FX loss/(gain)	-201.0%	-100.0%	-100.0%	-100.0%
Equity loss	-2.0%	19.5%	0.0%	-82.3%
Minority interest	2.6%	-8.0%	158.1%	-141.2%
Income Before Taxes	-74.9%	236.3%	280.7%	-120.6%
Income Taxes	-76.3%	85.0%	437.7%	-119.8%
Net income from operations	-74.4%	362.5%	246.9%	-120.9%
Diluted EPS	-75.3%	354.3%	240.6%	-120.6%

As a % of revenue	3/31/02	6/30/02	9/30/02	12/31/02
North Amer tire	49.2%	51.0%	49.9%	49.5%
EU tire	22.4%	21.2%	21.6%	21.6%
East Euro, Africa, & Mid East	5.2%	5.1%	5.3%	5.3%
Latin Amer tire	7.1%	7.0%	7.1%	7.2%
Asia tire	3.6%	3.5%	3.6%	3.6%
Engineered products	8.0%	7.8%	8.0%	8.1%
Chemical products	8.4%	8.2%	8.5%	8.5%
Interco elim	-3.9%	-3.8%	-3.9%	-3.9%
Total revenues	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	81.5%	80.7%	80.2%	79.9%
Gross profit	18.5%	19.4%	19.8%	20.1%
General/Admin.	11.7%	11.3%	11.7%	11.7%
D&A	4.3%	4.2%	4.4%	4.4%
EBIT	2.5%	3.8%	3.8%	4.0%
Rationalizations	0.0%	0.0%	0.0%	0.0%
Interest expense	2.0%	1.8%	1.8%	1.8%
Other expense/(income)	0.3%	0.3%	0.3%	0.3%
FX loss/(gain)	0.3%	0.0%	0.0%	0.0%
Equity loss	0.1%	0.1%	0.1%	0.1%
Minority interest	0.2%	0.2%	0.2%	0.2%
Income Before Taxes	-0.5%	1.4%	1.2%	1.4%
Income Taxes	-0.1%	0.3%	0.3%	0.4%
Net income from operations	-0.3%	1.0%	0.9%	1.1%

INCOME STATEMENT ($mm)	3/31/03	6/30/03	9/30/03	12/31/03
North Amer tire	1,703,370	1,788,310	1,705,083	1,681,839
EU tire	750,000	750,000	750,000	750,000
East Euro, Africa, & Mid East	183,727	185,564	187,420	189,294
Latin Amer tire	247,459	248,078	248,698	249,320
Asia tire	124,320	124,444	124,569	124,693
Engineered products	276,654	277,069	277,484	277,901
Chemical products	292,831	293,417	294,003	294,591
Interco elim	(135,000)	(135,000)	(135,000)	(135,000)
Total revenues	3,443,360	3,531,882	3,452,258	3,432,638
Cost of Goods Sold	2,751,245	2,821,973	2,758,354	2,742,678
Gross profit	692,115	709,908	693,904	689,960
General/Admin.	402,000	403,000	404,000	405,000
D&A	152,002	152,762	153,526	154,294
EBIT	138,113	154,146	136,378	130,666
Rationalizations	-	-	-	-
Interest expense	63,000	63,000	63,000	63,000
Other expense/(income)	11,000	11,000	11,000	11,000
FX loss/(gain)	-	-	-	-
Equity loss	4,612	4,520	4,429	4,341
Minority interest	8,000	8,000	8,000	8,000
Income Before Taxes	51,501	67,626	49,948	44,326
Income Taxes	12,875	16,907	12,487	11,081
Net income from operations	38,626	50,720	37,461	33,244
Diluted EPS	0.23	0.31	0.22	0.20
Shares Outstanding	165,600	166,100	166,600	167,100

Y/Y %	3/31/03	6/30/03	9/30/03	12/31/03
North Amer tire	0.6%	-0.7%	-1.0%	-0.7%
EU tire	-2.6%	0.0%	0.7%	1.4%
East Euro, Africa, & Mid East	1.8%	2.5%	3.3%	4.1%
Latin Amer tire	1.0%	1.0%	1.0%	1.0%
Asia tire	0.4%	0.4%	0.4%	0.4%
Engineered products	0.6%	0.6%	0.6%	0.6%
Chemical products	0.8%	0.8%	0.8%	0.8%
Interco elim	0.0%	0.0%	0.0%	0.0%
Total revenues	0.0%	0.0%	0.0%	0.4%
Cost of Goods Sold	-2.0%	-1.0%	-0.3%	0.4%
Gross profit	8.6%	3.8%	1.5%	0.4%
General/Admin.	0.0%	1.0%	0.2%	1.0%
D&A	2.0%	2.0%	2.0%	2.0%
EBIT	60.5%	14.2%	5.1%	-3.3%
Rationalizations	NA	NA	NA	NA
Interest expense	-7.4%	0.0%	0.0%	0.0%
Other expense/(income)	0.0%	0.0%	0.0%	0.0%
FX loss/(gain)	-100.0%	NA	NA	NA
Equity loss	-7.8%	-7.8%	-7.8%	-7.8%
Minority interest	0.0%	0.0%	0.0%	0.0%
Income Before Taxes	-423.2%	40.6%	16.1%	-8.5%
Income Taxes	-423.2%	40.6%	16.1%	-8.5%
Net income from operations	-423.2%	40.6%	16.1%	-8.5%
Diluted EPS	-419.3%	38.9%	14.7%	-9.6%

As a % of revenue	3/31/03	6/30/03	9/30/03	12/31/03
North Amer tire	49.5%	50.6%	49.4%	49.0%
EU tire	21.8%	21.2%	21.7%	21.8%
East Euro, Africa, & Mid East	5.3%	5.3%	5.4%	5.5%
Latin Amer tire	7.2%	7.0%	7.2%	7.3%
Asia tire	3.6%	3.5%	3.6%	3.6%
Engineered products	8.0%	7.8%	8.0%	8.1%
Chemical products	8.5%	8.3%	8.5%	8.6%
Interco elim	-3.9%	-3.8%	-3.9%	-3.9%
Total revenues	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	79.9%	79.9%	79.9%	79.9%
Gross profit	20.1%	20.1%	20.1%	20.1%
General/Admin.	11.7%	11.4%	11.7%	11.8%
D&A	4.4%	4.3%	4.4%	4.5%
EBIT	4.0%	4.4%	4.0%	3.8%
Rationalizations	0.0%	0.0%	0.0%	0.0%
Interest expense	1.8%	1.8%	1.8%	1.8%
Other expense/(income)	0.3%	0.3%	0.3%	0.3%
FX loss/(gain)	0.0%	0.0%	0.0%	0.0%
Equity loss	0.1%	0.1%	0.1%	0.1%
Minority interest	0.2%	0.2%	0.2%	0.2%
Income Before Taxes	1.5%	1.9%	1.4%	1.3%
Income Taxes	0.4%	0.5%	0.4%	0.3%
Net income from operations	1.1%	1.4%	1.1%	1.0%

INCOME STATEMENT ($mm)	FY 01	FY 02	FY 03
North Amer tire	7,152,300	6,910,601	6,878,603
EU tire	3,128,000	3,005,000	3,000,000
East Euro, Africa, & Mid East	703,100	724,914	746,005
Latin Amer tire	1,012,600	983,681	993,555
Asia tire	493,900	496,038	498,025
Engineered products	1,122,300	1,102,477	1,109,107
Chemical products	1,037,300	1,165,491	1,174,843
Interco elim	(502,300)	(540,000)	(540,000)
Total revenues	14,147,200	13,848,202	13,860,137
Cost of Goods Sold	11,619,500	11,156,666	11,074,250
Gross profit	2,527,700	2,691,536	2,785,888
General/Admin.	1,612,100	1,605,000	1,614,000
D&A	636,700	600,485	612,585
EBIT	278,900	486,051	559,303
Rationalizations	206,800	-	-
Interest expense	292,400	257,000	252,000
Other expense/(income)	11,800	44,000	44,000
FX loss/(gain)	100	10,000	-
Equity loss	40,600	19,408	17,901
Minority interest	200	32,000	32,000
Income Before Taxes	(273,000)	123,643	213,401
Income Taxes	(69,400)	30,911	53,350
Net income from operations	(203,600)	92,733	160,051
EPS contin ops	(1.27)	0.56	0.96
Shares Outstanding	160,000	164,350	166,350

Y/Y %	FY 01	FY 02	FY 03
North Amer tire	0.6%	-3.4%	-0.5%
EU tire	-2.2%	-3.9%	-0.2%
East Euro, Africa, & Mid East	-11.3%	3.1%	2.9%
Latin Amer tire	-3.4%	-2.9%	1.0%
Asia tire	-5.9%	0.4%	0.4%
Engineered products	-4.4%	-1.8%	0.6%
Chemical products	-8.2%	12.4%	0.8%
Interco elim	-10.6%	7.5%	0.0%
Total revenues	-1.9%	-2.1%	0.1%
Cost of Goods Sold	-0.2%	-4.0%	-0.7%
Gross profit	-9.1%	6.5%	3.5%
General/Admin.	0.3%	-0.4%	0.6%
D&A	1.0%	-5.7%	2.0%
EBIT	-48.6%	74.3%	15.1%
Rationalizations	66.6%	-100.0%	#DIV/0!
Interest expense	3.5%	-12.1%	-1.9%
Other expense/(income)	-57.6%	272.9%	0.0%
FX loss/(gain)	-101.5%	9900.0%	-100.0%
Equity loss	81.3%	-52.2%	-7.8%
Minority interest	-99.4%	15900.0%	0.0%
Income Before Taxes	-564.3%	-145.3%	72.6%
Income Taxes	-475.1%	-144.5%	72.6%
Net income from operations	-605.2%	-145.5%	72.6%
Diluted EPS	-609.4%	-144.3%	70.5%

As a % of revenue	FY 01	FY 02	FY 03
North Amer tire	50.6%	49.9%	49.6%
EU tire	22.1%	21.7%	21.6%
East Euro, Africa, & Mid East	5.0%	5.2%	5.4%
Latin Amer tire	7.2%	7.1%	7.2%
Asia tire	3.5%	3.6%	3.6%
Engineered products	7.9%	8.0%	8.0%
Chemical products	7.3%	8.4%	8.5%
Interco elim	-3.6%	-3.9%	-3.9%
Total revenues	100.0%	100.0%	100.0%
Cost of Goods Sold	82.1%	80.6%	79.9%
Gross profit	17.9%	19.4%	20.1%
General/Admin.	11.4%	11.6%	11.6%
D&A	4.5%	4.3%	4.4%
EBIT	2.0%	3.5%	4.0%
Rationalizations	1.5%	0.0%	0.0%
Interest expense	2.1%	1.9%	1.8%
Other expense/(income)	0.1%	0.3%	0.3%
FX loss/(gain)	0.0%	0.1%	0.0%
Equity loss	0.3%	0.1%	0.1%
Minority interest	0.0%	0.2%	0.2%
Income Before Taxes	-1.9%	0.9%	1.5%
Income Taxes	-0.5%	0.2%	0.4%
Net income from operations	-1.4%	0.7%	1.2%