GOODYEAR TIRE & RUBBER CO /OH/
Form POS AM
March 02, 2006

As filed with the Securities and Exchange Commission on March 2, 2006

Registration No. 333-127918

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Post-Effective
Amendment No. 1
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

The Goodyear Tire & Rubber Company
(Exact Name of Registrant as Specified in Its Charter)

Ohio	**3011**	**34-0253240**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

1144 East Market Street
Akron, Ohio 44316-0001
(330) 796-2121
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

C. Thomas Harvie, Esq.
Senior Vice President, General Counsel and Secretary
The Goodyear Tire & Rubber Company
1144 East Market Street
Akron, Ohio 44316-0001
(330) 796-2121
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:
Leonard Chazen, Esq.
Covington & Burling
1330 Avenue of the Americas
New York, NY 10019
(212) 841-1000

Approximate date of commencement of proposed sales to the public: From time to time after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective

registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The selling security holders identified in this prospectus may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 2, 2006

PROSPECTUS

$350,000,000

THE GOODYEAR TIRE & RUBBER COMPANY

4.00% Convertible Senior Notes due June 15, 2034

and Shares of Common Stock Issuable Upon Conversion of the Senior Notes

This prospectus covers resales by selling security holders identified herein of our 4.00% convertible senior notes due June 15, 2034 and shares of our common stock into which the notes are convertible. We will not receive any proceeds from the resale of the notes or the shares of common stock hereunder.

The notes will mature on June 15, 2034. You may convert your notes into shares of our common stock at a conversion rate of 83.0703 shares of common stock per $1,000 principal amount of notes (subject to adjustment in certain events), which is equivalent to a conversion price of approximately $12.04 per share, under the following circumstances: (1) during specified periods, if the closing sale price of our common stock reaches, or the trading price of the notes falls below, specified levels described in this prospectus; (2) if we call the notes for redemption; (3) if specified corporate transactions occur; or (4) if a fundamental change occurs. Upon conversion, we may at our option choose to deliver, in lieu of our common stock, cash or a combination of cash and common stock as described in this prospectus.

We will pay interest on the notes on June 15 and December 15 of each year. The notes will be issued only in denominations of $1,000 and integral multiples of $1,000.

On or after June 20, 2008, we have the option to redeem all or a portion of the notes that have not been previously converted at redemption prices set forth in this prospectus. On June 15 of each of 2011, 2014, 2019, 2024 and 2029, or upon a designated event as described in this prospectus, you have the option to require us to repurchase all or a portion of your notes at 100% of the principal amount, plus accrued and unpaid interest to the date of repurchase, plus, in the case of certain designated events as described in this prospectus, a make-whole premium determined as described in this prospectus.

The notes will be evidenced by a global note deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company. Except as described in this prospectus, beneficial interests in the global note will be shown on, and transfers thereon will be effected only through, records maintained by The Depository Trust Company and its direct and indirect participants.

The notes are senior, unsecured obligations that rank equally with our existing and future unsecured and unsubordinated indebtedness. See Description of Notes Ranking.

Prior to this offering, the notes have been eligible for trading on The PORTAL[sm] Market of the National Association of Securities Dealers, Inc. Notes sold by means of this prospectus are not expected to remain eligible for trading on The PORTAL Market. We do not intend to list the notes for trading on any national securities exchange or on the Nasdaq Stock Market.

Our common stock trades on the New York Stock Exchange under the symbol GT. The last reported sales price on March 1, 2006 was $14.52 per share.

See Risk Factors on page 7 of this prospectus to read about factors you should consider before purchasing the notes or our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is .

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EX-10.1 Salary and Bonus for Named Executive Officers
EX-23.1 Consent of PricewaterhouseCoopers LLP

YOU SHOULD RELY ONLY ON THE INFORMATION PROVIDED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. WE ARE NOT MAKING AN OFFER OR SOLICITING A PURCHASE OF THESE SECURITIES IN ANY JURISDICTION IN WHICH THE OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING THE OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANYONE TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION.

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Forward-Looking Information Safe Harbor Statement

Certain information set forth herein (other than historical data and information) may constitute forward-looking statements regarding events and trends that may affect our future operating results and financial position. The words estimate, expect, intend and project, as well as other words or expressions of similar meaning, are intended to ident forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this prospectus. Such statements are based on current expectations and assumptions, are inherently uncertain, are subject to risks and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements as a result of many factors, including:

although we recorded net income in 2004 and 2005, we cannot provide assurance that we will be able to achieve or sustain future profitability. Our future profitability is dependent upon, among other things, our ability to continue to successfully implement our turnaround strategy for our North American Tire segment;

we face significant global competition, increasingly from lower cost manufacturers, and our market share could decline;

our pension plans are significantly underfunded and our required contributions to those plans are substantial. Proposed U.S. legislation affecting pension plan funding could result in the need for additional cash payments by us into our U.S. pension plans and increase the insurance premiums we pay to the Pension Benefit Guaranty Corporation;

higher raw material and energy costs may materially adversely affect our operating results and financial condition;

continued pricing pressures from vehicle manufacturers may materially adversely affect our business;

our financial position, results of operations and liquidity could be materially adversely affected if we experience a labor strike, work stoppage or other similar difficulty;

pending litigation relating to our 2003 restatement could have a material adverse effect on our financial condition;

an ongoing SEC investigation regarding our accounting restatement could materially adversely affect us;

our long-term ability to meet current obligations and to repay maturing indebtedness, is dependent on our ability to access capital markets in the future and to improve our operating results;

we have a substantial amount of debt, which could restrict our growth, place us at a competitive disadvantage or otherwise materially adversely affect our financial health;

any failure to be in compliance with any material provision or covenant of our secured credit facilities and the indenture governing our senior secured notes could have a material adverse effect on our liquidity and our operations;

our secured credit facilities limit the amount of capital expenditures that we may make;

our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly;

we may incur significant costs in connection with product liability and other tort claims;

our reserves for product liability and other tort claims and our recorded insurance assets are subject to various uncertainties, the outcome of which may result in our actual costs being significantly higher than the amounts recorded;

we may be required to deposit cash collateral to support an appeal bond if we are subject to a significant adverse judgment, which may have a material adverse effect on our liquidity;

we are subject to extensive government regulations that may materially adversely affect our operating results;

our international operations have certain risks that may materially adversely affect our operating results;

we have foreign currency translation and transaction risks that may materially adversely affect our operating results;

the terms and conditions of our global alliance with Sumitomo Rubber Industries, Ltd. (SRI) provide for certain exit rights available to SRI in 2009 or thereafter, upon the occurrence of certain events, which could require us to make a substantial payment to acquire SRI s interest in certain of our joint venture alliances (which include much of our operations in Europe);

if we are unable to attract and retain key personnel, our business could be materially adversely affected; and

we may be impacted by economic and supply disruptions associated with global events including war, acts of terror, civil obstructions and natural disasters.

It is not possible to foresee or identify all such factors. We will not revise or update any forward-looking statement or disclose any facts, events or circumstances that occur after the date hereof that may affect the accuracy of any forward-looking statement.

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Additional Information

We have filed with the SEC a registration statement on Form S-1 under the Securities Act, to register the notes offered by this prospectus. This prospectus does not contain all of the information included in the registration statement and the exhibits and the schedules to the registration statement. We strongly encourage you to read carefully the registration statement and the exhibits and the schedules to the registration statement.

Any statement made in this prospectus concerning the contents of any contract, agreement or other document is only a summary of the actual contract, agreement or other document. If we have filed any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

We file and furnish annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any documents we file at the SEC s public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-888-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC s web site at www.sec.gov or through our web site at www.goodyear.com. We have not incorporated by reference into this prospectus the information included on or linked from our website, and you should not consider it to be part of this prospectus.

Summary

The following summary contains basic information about this offering. It may not contain all of the information that is important to you and it is qualified in its entirety by the more detailed information included in this prospectus. You should carefully consider the information contained in the entire prospectus, including the information set forth under the heading Risk Factors in this prospectus. In addition, certain statements include forward-looking information that involves risks and uncertainties. See Forward-looking Information Safe Harbor Statement.

In this prospectus, Goodyear, Company, we, us, and our refer to The Goodyear Tire & Rubber Company an subsidiaries on a consolidated basis, except as otherwise indicated.

The Company

We are one of the world s leading manufacturers of tires and rubber products, engaging in operations in most regions of the world. Our 2005 net sales were $19.7 billion and our net income for 2005 was $228 million. Together with our U.S. and international subsidiaries and joint ventures, we develop, manufacture, market and distribute tires for most applications. We also manufacture and market several lines of power transmission belts, hoses and other rubber products for the transportation industry and various industrial and chemical markets, and rubber-related chemicals for various applications. We are one of the world s largest operators of commercial truck service and tire retreading centers. In addition, we operate more than 1,800 tire and auto service center outlets where we offer our products for retail sale and provide automotive repair and other services. We manufacture our products in more than 100 facilities in 29 countries, and we have marketing operations in almost every country around the world. We employ approximately 80,000 associates worldwide.

Recent Developments

New Product Introductions

In 2005, we continued our transformation to a market-driven, consumer-focused company with the introduction in North America of the Fortera featuring TripleTred Technology, a premium SUV tire incorporating the same technology we introduced with the successful launch of our Assurance line of tires in 2004. In Europe, we introduced two new high performance winter tires, the Goodyear Ultra Grip 7 and Dunlop SP Winter Sport 3D, both of which have received highly favorable consumer reviews.

In February 2006, we released our newest Goodyear brand product for North America, the Eagle featuring ResponsEdge Technology. The ResponsEdge features an asymmetrical construction and tread that combine to provide a smooth and comfortable ride from the inboard side of the tire and ultra-high performance type grip from the outer edge of the tire. The ResponsEdge is the latest example of our ability to rapidly bring to market technologically sophisticated products designed to meet consumer demand.

Sale of Assets of North American Farm Tire Business

On December 28, 2005, we completed the previously announced sale of our North America farm tire assets to Titan Tire Corporation, a subsidiary of Titan International, Inc. The sale included our farm tire manufacturing plant, property and equipment in Freeport, Ill., and inventories. It also included a licensing agreement with Titan to pay a royalty to manufacture and sell Goodyear branded farm tires in North America. We received $100 million from Titan for the assets and recorded a loss in the fourth quarter of approximately $73 million on the sale, primarily related to pension and retiree medical costs.

Acquisition of South Pacific Tyres

In January 2006, we acquired Ansell Limited s interest in our South Pacific Tyres (SPT) joint ventures in both Australia and New Zealand. We now own 100% of both of these operations. In connection with the acquisition we paid Ansell approximately $40 million for its 50% ownership and repaid approximately $50 million of outstanding loans from Ansell to SPT. SPT has approximately 4,000 associates. SPT s results have been consolidated in our financial statements since January 2004.

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Conversion Period for $350 Million of 4% Convertible Notes due 2034

The notes are now convertible at the option of the holders and will remain convertible through March 31, 2006, the last day of the current fiscal quarter. The notes became convertible because the last reported sale price of our common stock for at least 20 trading days during the 30 consecutive trading-day period ending on January 17, 2006 (the 11th trading day of the current fiscal quarter) was greater than 120 percent of the conversion price in effect on such day. The notes were previously convertible during the third and fourth quarters of 2005 for the same reasons, although no conversions have occurred to date. If all outstanding notes are surrendered for conversion, the aggregate number of shares of common stock issued would be approximately 29 million. The notes could be convertible after March 31, 2006 if the sale price condition is met in any future fiscal quarter or if any of the other conditions to conversion set forth in the indenture governing the notes are met.

Our Principal Executive Offices

We are an Ohio corporation, organized in 1898. Our principal executive offices are located at 1144 East Market Street, Akron, Ohio 44316-0001. Our telephone number is (330) 796-2121.

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The Notes

The following summary contains basic information about the notes and is not intended to be complete. For a more complete understanding of the notes, please refer to the section entitled Description of the Notes in this prospectus.

Issuer	The Goodyear Tire & Rubber Company, an Ohio corporation.
Notes	$350,000,000 aggregate principal amount of 4.00% Convertible Senior Notes due 2034.
Issue Price	100% of the principal amount of each note, plus accrued interest, if any, from July 2, 2004.
Maturity	June 15, 2034 unless earlier redeemed, repurchased or converted.
Ranking	The notes are our senior, unsecured obligations and rank equal in right of payment with all of our other unsecured and unsubordinated indebtedness. At December 31, 2005, our consolidated senior secured indebtedness, including capital leases, totaled approximately $3.0 billion and our consolidated senior unsecured indebtedness totaled approximately $2.4 billion. The notes are not guaranteed by any of our subsidiaries and, accordingly, the notes are structurally subordinated to the existing and future indebtedness and other liabilities of our subsidiaries. At December 31, 2005, the total subsidiary liabilities, including guarantees of our indebtedness, was approximately $8.2 billion.
Make Whole Premium	If a fundamental change that is a change of control (each as defined below under Description of the Notes Designated Event Permits Holders to Require Us to Purchase Notes) becomes effective on or prior to June 15, 2011, holders of notes will be entitled to a make whole premium upon the repurchase of notes as described below under Description of the Notes Designated Event Permits Holders to Require Us to Purchase Notes and upon the conversion of notes as described below under Description of the Notes Conversion in Connection with a Fundamental Change. We may satisfy the make whole premium solely in shares of our common stock (other than cash paid in lieu of fractional shares) or in the same form of consideration into which shares of our common stock have been converted in connection with the change of control. The amount of the make whole premium, if any, will be based on the stock price (as defined below under Description of the Notes Determination of Make Whole Premium) and the effective date of the fundamental change. A description of how the make whole premium will be determined and tables illustrating the make whole premium that would apply in different circumstances is provided under Description of the Notes Determination of Make Whole Premium. Holders will not be entitled to the make whole premium if the stock price is less than $9.26 (subject to adjustment).
Interest	4.00% per year on the principal amount, payable semiannually in arrears on each June 15 and December 15.

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Conversion Rights	The notes are convertible at the option of the holder, prior to the close of business on the maturity date, under any of the following circumstances: on any business day in any fiscal quarter commencing prior to the maturity date, if the last reported sale price of our common stock for at least 20 trading days in the 30 consecutive trading-day period ending on the 11th trading day of such fiscal quarter is greater than 120% of the applicable conversion price per share of our common stock on such 11th trading day; or on any business day after June 15, 2029 and through the business day immediately preceding the maturity date, if the last reported sale price of our common stock on any trading date after June 15, 2029 is greater than 120% of the applicable conversion price per share of our common stock on such trading day; or at any time prior to June 15, 2029, during the five consecutive business day period following any five consecutive trading day period in which the trading price per $1,000 principal amount of notes for each day of that trading period was less than 98% of the product of the last reported sale price of our common stock on such corresponding trading day and the applicable conversion rate; if we have called the notes for redemption; or upon the occurrence of specified corporate events described under Description of the Notes Conversion upon Specified Corporate Transactions and Conversion in Connection with a Fundamental Change. For each $1,000 original principal amount of notes surrendered for conversion, you will receive 83.0703 shares of our common stock. This represents an initial conversion price of approximately $12.04 per share of common stock. As described in this prospectus, the conversion rate may be adjusted for certain reasons, but it will not be adjusted for accrued and unpaid interest. Except as otherwise described in this prospectus, you will not receive any payment representing accrued and unpaid interest upon conversion of a note. Upon conversion, we will have the right to deliver, in lieu of shares of our common stock, cash or a combination of cash and shares of our common stock. See Description of the Notes Conversion Rights.
Redemption of Notes at Our Option	On or after June 20, 2008, we may redeem for cash all or a portion of the notes at any time, upon not less than 30 nor more than 60 days prior notice, at redemption prices described in this prospectus, plus accrued but unpaid interest to but excluding the redemption date. See Description of the Notes Optional Redemption.
Purchase of Notes at Your Option	Holders of the notes will have the right to require us to purchase all or a portion of their notes on each June 15 of 2011, 2014, 2019, 2024 and 2029, each of which we refer to as a purchase date. In each case, we will pay a purchase price equal to 100% of the

principal amount of the notes to be purchased, plus any accrued and unpaid interest to but excluding the purchase date. See Description of the Notes Purchase of Notes by Us at the Option of the Holders.

Purchase of Notes Upon a Designated Event

If we undergo a designated event, (as defined below under Description of Notes Designated Event Permits Holders to Require Us to Purchase Notes) holders will have the right, at their option, to require us to purchase all of their notes or any portion of the principal amount thereof that is equal to $1,000 or an integral multiple of $1,000. The purchase price we are required to pay is equal to 100% of the principal amount of the notes to be purchased plus accrued and unpaid interest to but excluding the designated event repurchase date, plus, in the case of a fundamental change that is a change of control, a make whole premium, if any, as described above. See Description of the Notes Designated Event Permits Holders to Require Us to Purchase Notes.

Use of Proceeds

We will not receive any proceeds from the sale by any selling security holder of the notes or the common stock issuable upon conversion thereof.

Events of Default

The following will be events of default under the indenture for the notes:

- we fail to pay principal of, or premium (if any) on, any of the notes when due at maturity, upon redemption, required repurchase or otherwise;
- we fail to pay interest on the notes when due and payable and that default continues for a period of 30 days;
- we fail to convert notes into shares of common stock upon exercise of a holder s conversion right and that default continues for a period of 10 days;
- we fail to comply with or observe in any material respect any of the other covenants or agreements in the indenture for 60 days after written notice;
- we fail to pay any indebtedness (other than indebtedness owing to the Company or a significant subsidiary) within any applicable grace period after final maturity or the acceleration of any such indebtedness by the holders thereof because of a default if the total amount of such indebtedness unpaid or accelerated exceeds $50.0 million or its foreign currency equivalent;
- the rendering of any final nonappealable judgment or decree (not covered by insurance) for the payment of money in excess of $50.0 million or its foreign currency equivalent (treating any deductibles, self-insurance or retention as not so covered) against the Company or a significant subsidiary if such final judgment or decree remains outstanding and is not satisfied, discharged or waived within a period of 60 days following such judgment;

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	we fail to give notice of the right to require us to repurchase notes following the occurrence of a designated event within the time required to give such notice; and
	certain events of bankruptcy, insolvency or reorganization affecting the Company or a significant subsidiary. See Description of the Notes Events of Default and Remedies.
Book Entry Form	The notes were issued in book-entry form and are represented by permanent global certificates deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company, commonly known as DTC, in New York, New York. Beneficial interest in any of the notes are shown on, and transfers are effected only through, records maintained by DTC and its direct and indirect participants and any such interest may not be exchanged for certificated notes, except in limited circumstances. See Book-Entry System.
Trading	The notes will not be listed on any securities exchange or included in any automated quotation system. Our common stock is traded on the New York Stock Exchange under the symbol GT.

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Risk Factors

You should carefully consider the risks described below and other information contained in this prospectus before making an investment decision. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. Any of the events discussed in the risk factors below may occur. If they do, our business, results of operations or financial condition could be materially adversely affected. In such an instance, the trading price of our securities could decline, and you might lose all or part of your investment.

Risks Relating to Our Business

It is uncertain whether we will successfully implement the turnaround strategy for our North American Tire segment.

We are in the process of implementing a turnaround strategy for our North American Tire Segment. Based in part on successes in implementing this strategy, North American Tire had positive segment operating income in 2004 and 2005, after recording operating losses in the previous two years. Additional progress in implementing the turnaround strategy is needed, however, to enable the North American Tire business segment to continue to achieve and maintain profitability.

The ability of the North American Tire Segment to achieve and maintain profitability may be hampered by trends that continue to negatively affect the business, including industry overcapacity, which limits pricing power, increased competition from low-cost manufacturers and uncertain economic conditions in the United States. In addition, our North American Tire Segment has been, and may continue to be negatively affected by higher than expected raw materials and energy costs, weakness in the domestic auto industry, as well as the continuing burden of legacy pension and postretirement benefit costs. The success of our turnaround strategy is dependent, in part, on our ability to address and manage these costs as well as the costs associated with operating our manufacturing facilities in North America and to implement productivity improvements in these facilities.

The success of the turnaround strategy is also dependent on North American Tire s ability to continue to improve the proportion, or mix, of higher margin tires it sells. In order to continue this improvement, North American Tire must be successful in marketing and selling products that offer higher margins such as the Assurance and Fortera lines of tires and in developing additional higher margin tires that achieve broad market acceptance. Other initiatives that may impact our turnaround effort include our ability to successfully expand into the truck service business and to continue our selective fitment strategy with our OE customers.

We cannot assure that our turnaround strategy will be successful. If our turnaround strategy is not successful, we may not be able to achieve or sustain future profitability, which would impair our ability to meet our debt and other obligations and would otherwise negatively affect our financial condition and operations.

We face significant global competition and our market share could decline.

New tires are sold under highly competitive conditions throughout the world. We compete with other tire manufacturers on the basis of product design, performance, price, reputation, warranty terms, customer service and consumer convenience. On a worldwide basis, we have two major competitors, Bridgestone (based in Japan) and Michelin (based in France), that dominate the markets of the countries in which they are based and are aggressively seeking to maintain or improve their respective shares of the North American, European, Latin American and other world tire markets. Other significant competitors include Continental, Cooper Tire, Pirelli, Toyo, Yokohama, Kumho, Hankook and various regional tire manufacturers. Our competitors produce significant numbers of tires in low-cost markets. We are limited by our master contract with the United Steelworkers (USW) in our ability to shift production of certain products from U.S. facilities to low-cost markets and our credit agreements limit the amount of capital expenditures we may make. Our ability to compete successfully will depend, in significant part, on our ability to reduce costs by such means as reduction of excess capacity, leveraging global purchasing, improving productivity, elimination of redundancies and

increasing production at low-cost supply sources. If we are unable to compete successfully, our market share may decline, materially adversely affecting our results of operations and financial condition.

Our pension plans are significantly underfunded and our required contributions to these plans are expected to increase.

The unfunded amount of the projected benefit obligation for our U.S. and non-U.S. pension plans was $2 billion and $1 billion at December 31, 2005, respectively. Our funding obligations for our U.S. plans are governed by the Employee Retirement Income Security Act of 1974, or ERISA. In 2005, we met or exceeded our required funding obligations for these plans under ERISA. Estimates of the amount and timing of our future funding obligations are based on various assumptions. These include assumptions concerning, among other things, the actual and projected market performance of the pension plan assets; interest rates on long-term obligations; statutory requirements; and demographic data for pension plan participants. The amount and timing of our future funding obligations also depend on whether we elect to make contributions to the pension plans in excess of those required under ERISA, as such voluntary contributions could reduce or defer our future funding obligations.

At the end of 2005, interest rate relief measures relating to the calculation of pension funding obligations expired. Since new legislation has not yet been enacted, the interest rate reverted to a 30-year U.S. Treasury bond basis beginning in 2006 and we estimate that we will be required to contribute approximately $700 million to $750 million to our domestic pension plans in 2006 under this basis. If new legislation is enacted in 2006, we expect that the interest rate used for 2006 will be based on a corporate bond basis. Using an estimate of these rates would result in estimated required contributions to our domestic pension plans in 2006 of $550 million to $600 million. For more information on the calculation of our estimated domestic pension plan contributions, see Management s Discussion and Analysis of Financial Condition and Results of Operations Commitments and Contingent Liabilities. The anticipated funding obligations under our pension plans for 2007 and thereafter cannot be reasonably estimated at this time because of the current uncertainty around pension reform legislation. Pension reform legislation before Congress would replace the interest rate used to calculate pension funding obligations starting in 2007, require more rapid funding of underfunded plans, restrict the use of techniques that reduce funding volatility, and limit pension increases in underfunded plans. In addition, Congress has recently passed legislation increasing the insurance premiums charged by the Pension Benefit Guaranty Corporation. It is not possible to predict whether Congress will adopt pension reform legislation, or what form any final legislation might take. If legislation similar to the pending bills were enacted, it could materially increase our pension funding obligations and insurance premiums, and could limit our ability to negotiate pension increases for our union-represented employees. Nevertheless, we presently expect that our funding obligations under our pension plans in 2007 and subsequent years will be substantial and could have a material adverse impact on our liquidity.

Higher raw material and energy costs may materially adversely affect our operating results and financial condition.

Raw material costs increased significantly over the past few years driven by increases in costs of oil and natural rubber. Market conditions may prevent us from passing these increased costs on to our customers through timely price increases. Additionally, higher raw material costs around the world may continue to hinder our ability to fully realize our turnaround strategy. As a result, higher raw material and energy costs could result in declining margins and operating results.

Continued pricing pressures from vehicle manufacturers may materially adversely affect our business.

Approximately 28% of the tires we sell are sold to vehicle manufacturers for mounting as OE. Pricing pressure from vehicle manufacturers has been a characteristic of the tire industry in recent years. Many vehicle manufacturers have policies of seeking price reductions each year. Although we have taken steps to reduce costs and resist price reductions, current and future price reductions could materially adversely impact our sales and profit margins. If we are unable to offset continued price reductions through improved operating

efficiencies and reduced expenditures, those price reductions may result in declining margins and operating results.

If we fail to extend or renegotiate our primary collective bargaining contracts with our labor unions as they expire from time to time, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could be materially adversely affected.

We are a party to collective bargaining contracts with our labor unions, which represent a significant number of our employees. In particular, our master collective bargaining agreement with the USW covers approximately 13,600 employees in the United States at December 31, 2005 and expires in July 2006. Although we believe that our relations with our employees are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements as they expire from time to time. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with our unions arise, or if our unionized workers engage in a strike or other work stoppage, we could incur higher labor costs or experience a significant disruption of operations, which could have a material adverse effect on our business, financial position and results of operations.

Pending litigation relating to our 2003 restatement could have a material adverse effect on our financial position, cash flows and results of operation.

At least 36 lawsuits were filed against us and certain of our current or former officers or directors following our October 2003 announcement regarding the restatement of our previously issued financial results. These actions have been consolidated into three separate actions in the United States District Court for the Northern District of Ohio. We intend to vigorously defend these lawsuits. However, we cannot currently predict or determine the outcome or resolution of these proceedings or the timing for their resolution, or reasonably estimate the amount, or potential range, of possible loss, if any. In addition to any damages that we may suffer, our management s efforts and attention may be diverted from our ordinary business operations in order to address these claims. The final resolution of these lawsuits could have a material adverse effect on our financial position, cash flows and results of operation.

An ongoing SEC investigation regarding our accounting restatement could materially adversely affect us.

Following our October 2003 announcement regarding the restatement of our previously issued financial results, the SEC advised us that it had initiated an informal inquiry into the facts and circumstances related to the restatement. On February 5, 2004, the SEC advised us that it had approved the issuance of a formal order of investigation. On August 16, 2005, we announced that we had received a Wells Notice from the SEC indicating that the staff of the SEC intends to recommend that a civil or administrative enforcement action be brought against us for alleged violations of the Securities Exchange Act of 1934, relating to the maintenance of books, records and internal accounting controls, the establishment of disclosure controls and procedures, and periodic SEC filing requirements. The alleged violations relate to the account reconciliation matters giving rise to our initial decision to restate in October 2003. We have also been informed that Wells Notices have been issued to a former chief financial officer and a former chief accounting officer of ours. We continue to cooperate with the SEC regarding this matter. We are unable to predict the outcome of this process, and an unfavorable outcome could harm our reputation and our business.

Our long-term ability to meet our obligations and to repay maturing indebtedness is dependent on our ability to access capital markets in the future and to improve our operating results.

The adequacy of our liquidity depends on our ability to achieve an appropriate combination of operating improvements, financing from third parties, access to capital markets and asset sales. Although we completed a major refinancing of our senior secured credit facilities on April 8, 2005, issued $400 million in Senior unsecured notes in June 2005, and repaid our $6^{3}/8$% Euro Notes due 2005 upon maturity on June 6, 2005, we may undertake additional financing actions in the capital markets in order to ensure that our future liquidity requirements are addressed. These actions may include the issuance of additional equity.

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Our access to the capital markets cannot be assured and is dependent on, among other things, the degree of success we have implementing our North American Tire turnaround strategy. See It is uncertain whether we will successfully implement the turnaround strategy for our North American Tire segment. Future liquidity requirements also may make it necessary for us to incur additional debt. A substantial portion of our assets is subject to liens securing our indebtedness. As a result, we are limited in our ability to pledge our remaining assets as security for additional secured indebtedness. Our failure to access the capital markets or incur additional debt in the future could have a material adverse effect on our liquidity and operations, and could require us to consider further measures, including deferring planned capital expenditures, reducing discretionary spending, selling additional assets and restructuring existing debt.

We have a substantial amount of debt, which could restrict our growth, place us at a competitive disadvantage or otherwise materially adversely affect our financial health.

We have a substantial amount of debt. As of December 31, 2005, our debt (including capital leases) on a consolidated basis was approximately $5.4 billion. Our substantial amount of debt and other obligations could have important consequences. For example, it could:

- Make it more difficult for us to satisfy our obligations;
- Impair our ability to obtain financing in the future for working capital, capital expenditures, research and development, acquisitions or general corporate requirements;
- Increase our vulnerability to general adverse economic and industry conditions;
- Limit our ability to use operating cash flow in other areas of our business because we would need to dedicate a substantial portion of these funds for payments on our indebtedness;
- Limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- Place us at a competitive disadvantage compared to our competitors that have less debt.

The agreements governing our debt, including our credit agreements, limit, but do not prohibit, us from incurring additional debt and we may incur a significant amount of additional debt in the future, including additional secured debt. If new debt is added to our current debt levels, our ability to satisfy our debt obligations may become more limited.

Our ability to make scheduled payments on, or to refinance, our debt and other obligations will depend on our financial and operating performance, which, in turn, is subject to our ability to implement our turnaround strategy, prevailing economic conditions and certain financial, business and other factors beyond our control. If our cash flow and capital resources are insufficient to fund our debt service and other obligations, including required pension contributions, we may be forced to reduce or delay expansion plans and capital expenditures, sell material assets or operations, obtain additional capital or restructure our debt. We cannot assure you that our operating performance, cash flow and capital resources will be sufficient to pay our debt obligations when they become due. We cannot assure you that we would be able to dispose of material assets or operations or restructure our debt or other obligations if necessary or, even if we were able to take such actions, that we could do so on terms that were acceptable to us.

Any failure to be in compliance with any material provision or covenant of our debt instruments could have a material adverse effect on our liquidity and operations.

The indentures and other agreements governing our secured credit facilities and secured notes and our other outstanding indebtedness impose significant operating and financial restrictions on us. These restrictions

may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. These restrictions limit our ability to, among other things:

- Incur additional indebtedness and issue preferred stock;
- Pay dividends and other distributions with respect to our capital stock or repurchase our capital stock or make other restricted payments;
- Enter into transactions with affiliates;
- Create or incur liens to secure debt;
- Make certain investments;
- Enter into sale/leaseback transactions;
- Sell or otherwise transfer or dispose of assets;
- Incur dividend or other payment restrictions affecting certain subsidiaries;
- Use proceeds from the sale of certain assets; and
- Engage in certain mergers or consolidations and transfers of substantially all assets.

Our ability to comply with these covenants may be affected by events beyond our control, and unanticipated events could require us to seek waivers or amendments of covenants or alternative sources of financing or to reduce expenditures. We cannot assure you that such waivers, amendments or alternative financing could be obtained, or if obtained, would be on terms acceptable to us.

Our first lien credit facility and European term loan and revolving credit facility require us to maintain certain specified thresholds of Consolidated EBITDA to Consolidated Interest Expense (as defined in each of the facilities). In addition, under these facilities, we are required not to permit our ratio of Consolidated Net Secured Indebtedness (net of cash in excess of $400 million) to Consolidated EBITDA to be greater than certain specified thresholds. These restrictions could limit our ability to plan for or react to market conditions or meet extraordinary capital needs or otherwise restrict capital activities.

A breach of any of the covenants or restrictions contained in any of our existing or future financing agreements, including the financial covenants in our secured credit facilities, could result in an event of default under those agreements. Such a default could allow the lenders under our financing agreements, if the agreements so provide, to discontinue lending, to accelerate the related debt as well as any other debt to which a cross-acceleration or cross-default provision applies, and/or to declare all borrowings outstanding thereunder to be due and payable. In addition, the lenders could terminate any commitments they have to provide us with further funds. If any of these events occur, we cannot assure you that we will have sufficient funds available to pay in full the total amount of obligations that become due as a result of any such acceleration, or that we will be able to find additional or alternative financing to refinance any such accelerated obligations. Even if we obtain additional or alternative financing, we cannot assure you that it would be on terms that would be acceptable to us. Finally, we have agreed with the USW that if we do not remain in compliance with our prevailing principal bank financial covenants, we will seek a substantial private equity investment. Any such investor or investors could exercise influence over the management of our business and may have interests that conflict with the interests of our other investors.

We cannot assure you that we will be able to remain in compliance with the covenants to which we are subject in the future and, if we fail to do so, that we will be able to obtain waivers from our lenders or amend the covenants.

Our capital expenditures may not be adequate to maintain our competitive position.

Our capital expenditures are limited by our liquidity and capital resources and restrictions in our credit agreements. The amount Goodyear has available for capital spending is limited by the need to pay its other expenses and to maintain adequate cash reserves and borrowing capacity to meet unexpected demands that

may arise. In addition, our credit facilities limit the amount of capital expenditures that we may make to $700 million in each year through 2010. The amounts of permitted capital expenditures may be increased with the proceeds of equity issuances. In addition, unused capital expenditures may be carried over into the next year. In 2005, capital expenditures as defined in our borrowing agreements totaled $621 million and are expected to increase to approximately $665 million in 2006. Capital expenditures as defined in our borrowing agreements do not include capitalized software and include non-cash capital lease transactions and, accordingly, differ from capital expenditures reported in our Consolidated Statements of Cash Flows. We believe that our ratio of capital expenditures to sales is lower than the comparable ratio for our principal competitors.

Productivity improvements through process re-engineering, design efficiency and manufacturing cost improvements may be required to offset potential increases in labor and raw material costs and competitive price pressures. In addition, as part of our strategy to increase the percentage of tires sold in higher cost markets that are produced at our lower-cost production facilities, we may need to modernize or expand certain of those facilities. If we are unable to make sufficient capital expenditures, or to maximize the efficiency of the capital expenditures we do make, we may be unable to achieve productivity improvements, which may harm our competitive position.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Certain of our borrowings, primarily borrowings under our credit facilities, are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, which would require us to use more of our available cash to service our indebtedness. There can be no assurance that we will be able to enter into swap agreements or other hedging arrangements in the future, or that existing or future hedging arrangements will offset increases in interest rates. At December 31, 2005, we had $2,764 million of variable rate debt outstanding.

We may incur significant costs in connection with asbestos claims.

We are among many defendants named in legal proceedings involving claims of individuals relating to alleged exposure to asbestos. At December 31, 2005, approximately 125,500 claims were pending against us alleging various asbestos-related personal injuries purported to have resulted from alleged exposure to asbestos in certain rubber encapsulated products or aircraft braking systems manufactured by us in the past or to asbestos in certain of our facilities. We expect that additional claims will be brought against us in the future. Our ultimate liability with respect to such pending and unasserted claims is subject to various uncertainties, including the following:

- the number of claims that are brought in the future;
- the costs of defending and settling these claims;
- the risk of insolvencies among our insurance carriers;
- the possibility that adverse jury verdicts could require us to pay damages in amounts greater than the amounts for which we have historically settled claims;
- the risk of changes in the litigation environment or Federal and state law governing the compensation of asbestos claimants; and
- the risk that the bankruptcies of other asbestos defendants may increase our costs.

Because of the uncertainties related to such claims, it is possible that we may incur a material amount in excess of our current reserve for such claims. In addition, if any of the foregoing risks were to materialize, the resulting costs could have a material adverse impact on our liquidity, financial position and results of operations in future periods.

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We may be required to deposit cash collateral to support an appeal bond if we are subject to a significant adverse judgment, which may have a material adverse effect on our liquidity.

We are subject to various legal proceedings. If we wish to appeal any future adverse judgment in any of these proceedings, we may be required to post an appeal bond with the relevant court. We may be required to issue a letter of credit to the surety posting the bond. We may issue up to an aggregate of $700 million in letters of credit under our $1.5 billion U.S. first lien credit facility. As of December 31, 2005, we had $499 million in letters of credit issued under this facility. If we are subject to a significant adverse judgment and do not have sufficient availability under our credit facilities to issue a letter of credit to support an appeal bond, we may be required to pay down borrowings under the facilities or deposit cash collateral in order to stay the enforcement of the judgment pending an appeal. A significant deposit of cash collateral may have a material adverse effect on our liquidity. If we are unable to post cash collateral, we may be unable to stay enforcement of the judgment.

We are subject to extensive government regulations that may materially adversely affect our operating results.

We are subject to regulation by the Department of Transportation and by the National Highway Traffic Safety Administration, or NHTSA, which have established various standards and regulations applicable to tires sold in the United States and tires sold in a foreign country that are identical or substantially similar to tires sold in the United States. NHTSA has the authority to order the recall of automotive products, including tires, having safety-related defects. NHTSA s regulatory authority was expanded in November 2000 as a result of the enactment of the Transportation Recall Enhancement, Accountability, and Documentation Act, or TREAD Act. The TREAD Act imposes numerous requirements with respect to the early warning reporting of warranty claims, property damage claims, and bodily injury and fatality claims and also requires tire manufacturers, among other things, to conform with revised and more rigorous tire testing standards, once the revised standards are implemented. Compliance with the TREAD Act regulations will increase the cost of producing and distributing tires in the United States. In addition, while we believe that our tires are free from design and manufacturing defects, it is possible that a recall of our tires, under the TREAD Act or otherwise, could occur in the future. A substantial recall could have a material adverse effect on our reputation, operating results and financial position. Compliance with these and other Federal, state and local laws and regulations in the future may require a material increase in our capital expenditures and could materially adversely affect the Company s earnings and competitive position.

Our international operations have certain risks that may materially adversely affect our operating results.

Goodyear has manufacturing and distribution facilities throughout the world. The international operations are subject to certain inherent risks, including:

- exposure to local economic conditions;
- adverse changes in the diplomatic relations of foreign countries with the United States;
- hostility from local populations and insurrections;
- adverse currency exchange controls;
- restrictions on the withdrawal of foreign investment and earnings;
- withholding taxes and restrictions on the withdrawal of foreign investment and earnings;
- labor regulations;
- expropriations of property;
- the potential instability of foreign governments;
- risks of renegotiation or modification of existing agreements with governmental authorities;

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export and import restrictions; and

other changes in laws or government policies.

The likelihood of such occurrences and their potential effect on Goodyear vary from country to country and are unpredictable. Certain regions, including Latin America and Asia, are inherently more economically and politically volatile and as a result, our business units that operate in these regions could be subject to significant fluctuations in sales and operating income from quarter to quarter. Because a significant percentage of our operating income in recent years has come from these regions, adverse fluctuations in the operating results in these regions could have a disproportionate impact on our results of operations in future periods.

We have foreign currency translation and transaction risks that may materially adversely affect our operating results.

The financial condition and results of operations of certain of our operating entities are reported in various foreign currencies and then translated into U.S. dollars at the applicable exchange rate for inclusion in our financial statements. As a result, the appreciation of the U.S. dollar against these foreign currencies has a negative impact on our reported sales and operating margin (and conversely, the depreciation of the U.S. dollar against these foreign currencies has a positive impact). For the fiscal year ended December 31, 2005, we estimate that foreign currency translation favorably impacted sales and segment operating income by approximately $210 million and $95 million, respectively, compared to the prior year. The volatility of currency exchange rates may materially adversely affect our operating results.

The terms and conditions of our global alliance with Sumitomo Rubber Industries, Ltd. (SRI) provide for certain exit rights available to SRI upon the occurrence of certain events, which could require us to make a substantial payment to acquire SRI s interest in certain of their joint venture alliances.

In 1999, we entered into a global alliance with SRI. Under the global alliance agreements, we acquired 75%, and SRI owned 25%, of Goodyear Dunlop Tires Europe B.V., which concurrently with the transaction acquired substantially all of SRI s tire businesses in Europe and most of Goodyear s tire businesses in Europe. We also acquired 75%, and SRI acquired 25%, of Goodyear Dunlop Tires North America, Ltd., a holding company that purchased SRI s tire manufacturing operations in North America and certain of its primarily OE-related tire sales and distribution operations. In addition, we also acquired 25% of the capital stock of two newly-formed tire companies in Japan, as well as 51% of the capital stock of a newly-formed technology company and 80% of the capital stock of a newly-formed global purchasing company. SRI owns the balance of the capital stock in each of these companies. Under the Umbrella Agreement between us and SRI, SRI has the right to require us to purchase from SRI its ownership interests in the European and North American joint ventures in September 2009 if certain triggering events have occurred. In addition, the occurrence of certain other events enumerated in the Umbrella Agreement, including certain bankruptcy events or changes in control of Goodyear, could provide SRI with the right to require us to repurchase these interests immediately. While we have not done any current valuation of these businesses, our cost of acquiring an interest in these businesses in 1999 was approximately $1.2 billion. Any payment required to be made to SRI pursuant to an exit under the terms of the global alliance agreements could be substantial. We cannot assure you that our operating performance, cash flow and capital resources would be sufficient to make such a payment or, if we were able to make the payment, that there would be sufficient funds remaining to satisfy our other obligations. The withdrawal of SRI from the global alliance could also have other adverse effects on our business.

If we are unable to attract and retain key personnel our business could be materially adversely affected.

Our business substantially depends on the continued service of key members of our management. The loss of the services of a significant number of members of our management could have a material adverse effect on our business. Our future success will also depend on our ability to attract and retain highly skilled personnel, such as engineering, marketing and senior management professionals. Competition for these employees is intense, and we could experience difficulty from time to time in hiring and retaining the

personnel necessary to support our business. If we do not succeed in retaining our current employees and attracting new high quality employees, our business could be materially adversely affected.

Risks Relating to the Notes

The notes are unsecured and rank pari passu with our other senior debt; the notes are effectively subordinated to our secured debt and structurally subordinated to all liabilities of our subsidiaries.

The notes rank pari passu with other senior debt of Goodyear, including our trade payables. The notes are not secured by any of our assets or those of our subsidiaries. As a result, the notes will be effectively subordinated to any secured debt we may incur. In any liquidation, dissolution, bankruptcy or other similar proceeding, holders of our secured debt may assert rights against any assets securing such debt in order to receive full payment of their debt before those assets may be used to pay the holders of the notes. At December 31, 2005, we had approximately $5.4 billion of total debt (including capital leases) on a consolidated basis, $3.0 billion of which is senior secured debt.

Furthermore, our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to make payments on the notes or to make any funds available for that purpose. Holders of notes will not have any claims as a creditor against our subsidiaries. As a result, the notes will be structurally subordinated to all liabilities of our subsidiaries. Therefore, in the event of any bankruptcy, liquidation or reorganization of any subsidiary, the rights of the holders of the notes to participate in the assets of such subsidiary will rank behind the claims of that subsidiary s creditors, including trade creditors (except to the extent we have a claim as a creditor of such subsidiary). The ability of our subsidiaries to pay dividends and make other payments to us may be restricted by, among other things, applicable corporate and other laws and regulations as well as agreements to which our subsidiaries may become a party. At December 31, 2005, the total subsidiary liabilities, including guarantees of our indebtedness, was approximately $8.2 billion.

We expect that the trading value of the notes will be significantly affected by the price of our common stock and other factors and our stock price may be volatile and could decline substantially.

Because the notes are convertible into shares of our common stock, the market price of the notes is expected to be significantly affected by the market price of our common stock. This may result in greater volatility in the trading value of the notes than would be expected for nonconvertible debt securities we issue. From the beginning of 2002 to December 31, 2005, the reported high and low sales prices for our common stock ranged from a low of $3.35 per share to a high of $28.31 per share. The market price of our common stock will likely continue to fluctuate in response to factors including those listed elsewhere in this Risk Factors section, under the caption Forward-looking Information Safe Harbor Statement and the following, many of which are beyond our control:

- quarterly fluctuations in our operating and financial results;
- changes in financial estimates and recommendations by financial analysts;
- sales by investors who view notes as more attractive means for equity participation and hedging or arbitrage activity;
- fluctuations in the stock price and operating results of our competitors;
- our credit rating with major credit rating agencies;
- the prevailing interest rates being paid by other companies similar to us;
- other financing activity in which we may engage;
- our financial condition, financial performance and future prospects;
- the global threat of terrorism; and

the overall condition of the financial markets and the economy.

The stock markets in general, including the New York Stock Exchange, have experienced substantial price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of our notes and our common stock.

The make whole premium on notes converted in connection with, or tendered for purchase upon, a change of control may not adequately compensate the holder for the lost option time value of notes.

If a fundamental change that constitutes a change of control occurs on or prior to June 15, 2011, holders of notes will be entitled to a make whole premium in respect of notes converted in connection with, or (in certain circumstances) tendered for purchase upon, the change of control. The amount of the make whole premium will be determined based on the date on which the change of control becomes effective and the price paid per share of our common stock in the transaction constituting the change of control, as described below under Description of the Notes Determination of Make Whole Premium .

While the make whole premium is designed to compensate the holder of notes for the lost option time value of notes as a result of a change of control, the amount of the make whole premium is only an approximation of the lost value and may not adequately compensate the holder for such loss. In addition, if a change of control occurs after June 15, 2011 or if the price paid per share in the transaction constituting the change of control is less than $9.26 (subject to adjustment), no make whole premium entitlement will arise.

Conversion of the notes will dilute the ownership interests of existing stockholders.

The conversion of some or all of the notes will dilute the ownership interest of our existing stockholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling in our common stock by market participants which could depress the price of our common stock.

We may be unable to repay or repurchase the notes.

At maturity, the entire outstanding principal amount of the notes will become due and payable by us. In addition, holders of the notes will have the right to require us to repurchase all or a portion of their notes on each June 15 of 2011, 2014, 2019, 2024 and 2029 or if a designated event, as defined in the indenture, occurs. See Description of the Notes Purchase of Notes by Us at the Option of the Holders and Designated Event Permits Holders to Require Us to Purchase Notes. A designated event would likely constitute an event of default and result in the acceleration of the maturity of our existing credit facilities. In addition, the repurchase of the notes upon a designated event may constitute an event of default under our then-existing debt instruments. We cannot assure you that we will have sufficient financial resources, or will be able to arrange financing, to pay the principal amount at maturity or the repurchase price in cash with respect to any notes tendered by holders for repurchase on any of these dates or upon a designated event. In addition, restrictions in our then-existing credit facilities or other indebtedness may not allow us to repay or repurchase the notes. Our failure to repay or repurchase the notes when required would result in an event of default with respect to the notes. Any such default, in turn, may cause a default under the terms of our other debt.

The notes are not protected by restrictive covenants.

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the notes could have the effect of diminishing our ability to make payments on the notes when due. The indenture also contains no covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change involving us, except to the extent described under Description of the Notes Designated Event Permits Holders to Require Us to Purchase Notes.

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Shares eligible for public sale after this offering could adversely affect our stock price and in turn the market price of the notes.

The future sale of a substantial number of our shares of common stock in the public market, or the perception that such sales could occur, could significantly reduce our stock price which, in turn, could adversely affect the market price of the notes. It could also make it more difficult for us to raise funds through equity offerings in the future.

An active trading market may not develop for the notes.

We do not intend to list the notes on any securities exchange. As a result, we cannot ensure that any market for the notes will develop or, if one does develop, that it will be maintained. If an active market for the notes fails to develop or be sustained, the trading price of the notes could be materially and adversely affected and could trade at prices that may be lower than the initial offering price of the notes.

In addition, the liquidity of the trading market for the notes, if any, and the market price quoted for the notes may be adversely affected by changes in interest rates in the market for comparable securities and by changes in our financial performance or prospects, as well as by declines in the prices of securities, or the financial performance or prospects of, similar companies.

The conditional conversion feature of the notes could result in you receiving less than the value of the common stock into which a note is convertible.

The notes are convertible into shares of our common stock only if specified conditions are met. If the specific conditions for conversion are not met, you will not be able to convert your notes, and you may not be able to receive the value of the common stock into which the notes would otherwise be convertible.

If you hold notes, you will not be entitled to any rights with respect to our common stock, but you will be subject to all changes made with respect to our common stock.

If you hold notes, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting the common stock. You will only be entitled to rights on the common stock if and when we deliver shares of common stock to you upon conversion or required repurchase of your notes. For example, in the event that an amendment is proposed to our Code of Regulations or Articles of Incorporation requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to your conversion of notes, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock or other classes of capital stock.

The conversion rate of the notes may not be adjusted for all dilutive events.

The conversion rate of the notes is subject to adjustment for certain events, including but not limited to the issuance of stock dividends on our common stock, the issuance of rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness or assets, certain cash dividends and certain tender or exchange offers as described under Description of the Notes Conversion Rate Adjustments. The conversion rate will not be adjusted for other events, such as a third party tender or exchange offer or an issuance of common stock for cash, that may adversely affect the trading price of the notes or the common stock. There can be no assurance that an event that adversely affects the value of the notes, but does not result in an adjustment to the conversion rate, will not occur.

Our corporate structure may materially adversely affect our ability to meet our debt service obligations under the notes.

A significant portion of our consolidated assets is held by our subsidiaries. We have manufacturing and/or sales operations in most countries in the world, often through subsidiary companies. Our cash flow and our ability to service our debt, including the notes, depends on the results of operations of these subsidiaries and upon the ability of these subsidiaries to make distributions of cash to us, whether in the form of dividends, loans or otherwise. In recent years, our foreign subsidiaries have been a significant source of cash flow for our

business. In certain countries where we operate, transfers of funds into or out of such countries are generally or periodically subject to various restrictive governmental regulations and there may be adverse tax consequences to such transfers. In addition, our debt instruments in certain cases place limitations on the ability of our subsidiaries to make distributions of cash to us. While the indenture limits our ability to enter into agreements that restrict our ability to receive dividends and other distributions from our subsidiaries, these limitations are subject to a number of significant exceptions, and we are generally permitted to enter into such instruments in connection with financing our foreign subsidiaries.

We may issue preferred stock whose terms could adversely affect the voting power or value of our common stock.

Our Articles of Incorporation and Code of Regulations authorize us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such preferences, powers and relative, participating, optional and other rights, including preferences over our common stock respecting dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock which the notes are convertible into thereby adversely affecting the value of the notes. For example, we might afford holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of our common stock which the notes are convertible into, thereby adversely affecting the value of the notes.

Provisions of Ohio law and provisions in our Articles of Incorporation and Code of Regulations could delay or prevent a change in control of us, even if that change would be beneficial to our stockholders.

We are incorporated under the laws of the State of Ohio. Ohio law imposes some restrictions on mergers and other business combinations between us and holders of 10% or more of our outstanding common stock. In addition, provisions in our Articles of Incorporation and Code of Regulations may have the effect, either alone or in combination with each other, of making more difficult or discouraging a business combination or an attempt to obtain control of Goodyear that is not approved by our board of directors, even if such combination would be beneficial to our stockholders. Since the notes are convertible into our common stock this could adversely affect the value of the notes.

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Use of Proceeds

The selling holders will receive all of the net proceeds of the resale of the notes and our common stock issuable upon conversion of the notes. We will not receive any of the proceeds from the resale of any of these securities.

Consolidated Ratio of Earnings to Fixed Charges

The following table sets forth our consolidated ratio of earnings to fixed charges for each of the last five years.

Year Ended December 31,				
2005	2004	2003	2002	2001
2.05	1.72	(1)	1.16	(2)

(1) Earnings for the year ended December 31, 2003 were inadequate to cover fixed charges. The coverage deficiency was $641.7 million.

(2) Earnings for the year ended December 31, 2001 were inadequate to cover fixed charges. The coverage deficiency was $271.2 million.

For purposes of calculating our ratio of earnings to fixed charges:

Earnings consist of income (loss) before income taxes plus (i) amortization of previously capitalized interest, (ii) minority interest in net income of consolidated subsidiaries with fixed charges, (iii) proportionate share of fixed charges of investees accounted for by the equity method, and (iv) proportionate share of net loss of investees accounted for by the equity method, less (i) capitalized interest, (ii) minority interest in net loss of consolidated subsidiaries, and (iii) undistributed proportionate share of net income of investees accounted for by the equity method.

Fixed charges consist of (i) interest, whether expensed or capitalized, (ii) amortization of debt discount, premium or expense, (iii) the interest portion of rental expense, and (iv) proportionate share of fixed charges of investees accounted for by the equity method.

Selected Financial Data

	Year Ended December 31,				
	2005	2004	2003	2002	2001
(In millions, except per share amounts)					
Net Sales	$ 19,723	$ 18,353	$ 15,102	$ 13,828	$ 14,140
Income (Loss) before Cumulative Effect of Accounting Change	$ 239	$ 115	$ (807)	$ (1,247)	$ (255)
Cumulative Effect of Accounting Change	(11)				
Net Income (Loss)	$ 228	$ 115	$ (807)	$ (1,247)	$ (255)
Net Income (Loss) Per Share Basic					
Income (Loss) before Cumulative Effect of Accounting Change	$ 1.36	$ 0.65	$ (4.61)	$ (7.47)	$ (1.59)
Cumulative Effect of Accounting Change	(0.06)				
Net Income (Loss) Per Share Basic	$ 1.30	$ 0.65	$ (4.61)	$ (7.47)	$ (1.59)

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(In millions, except per share amounts)	Year Ended December 31, 2005	2004	2003	2002	2001
Net Income (Loss) Per Share Diluted					
Income (Loss) before Cumulative Effect of Accounting Change	$ 1.21	$ 0.63	$ (4.61)	$ (7.47)	$ (1.59)
Cumulative Effect of Accounting Change	(0.05)				
Net Income (Loss) Per Share Diluted	$ 1.16	$ 0.63	$ (4.61)	$ (7.47)	$ (1.59)
Dividends Per Share	$	$	$	$ 0.48	$ 1.02
Total Assets	15,627	16,101	14,285	12,461	13,565
Long Term Debt and Capital Leases due Within One Year	448	1,010	114	370	110
Long Term Debt and Capital Leases	4,742	4,443	4,826	2,990	3,203
Shareholders Equity (Deficit)	73	74	(33)	221	2,597

(1) Refer to Principles of Consolidation in the Note to the Consolidated Financial Statements No. 1, Accounting Policies, included herein.

(2) Net Income in 2005 included net after-tax charges of $68 million, or $0.33 per share-diluted, due to reductions in production resulting from the impact of hurricanes, fire loss recovery, favorable settlements with certain chemical suppliers, rationalizations, receipt of insurance proceeds for an environmental insurance settlement, general and product liability discontinued products, asset sales, write-off of debt fees, the cumulative effect of adopting FIN 47, and the impact of certain tax adjustments.

(3) Net sales in 2004 increased $1 billion resulting from the consolidation of two businesses in accordance with FASB Interpretation No. 46R (revised December 2003) Consolidation of Variable Interest Entities (FIN 46R). Net Income in 2004 included net after-tax charges of $154 million, or $0.80 per share-diluted, for rationalizations and related accelerated depreciation, general and product liability-discontinued products, insurance fire loss deductibles, external professional fees associated with an accounting investigation, and asset sales. Net income in 2004 also included net after-tax benefits of $239 million, or $1.24 per share-diluted, from an environmental insurance settlement, net favorable tax adjustments and a favorable lawsuit settlement.

(4) Net Loss in 2003 included net after-tax charges of $516 million, or $2.93 per share-diluted, for rationalizations, general and product liability-discontinued products, accelerated depreciation and asset write-offs, net favorable tax adjustments, and an unfavorable settlement of a lawsuit. In addition, we recorded account reconciliation adjustments related to Engineered Products in the restatements totaling $19 million or $0.11 per share in 2003.

(5) Net Loss in 2002 included net after-tax charges of $24 million, or $0.14 per share-diluted, for general and product liability discontinued products, asset sales, rationalizations, and the write-off of a miscellaneous investment. Net loss in 2002 also included a non-cash charge of $1.2 billion, or $7.31 per share-diluted, to establish a valuation allowance against net federal and state deferred tax assets.

(6) Net Loss in 2001 included net after-tax charges of $187 million, or $1.18 per share-diluted, for rationalizations, asset sales, general and product liability discontinued products, rationalization costs at an equity affiliate and costs related to a tire replacement program.

Management s Discussion and Analysis of Financial Condition and Results of Operations

(All per share amounts are diluted)

Overview

The Goodyear Tire & Rubber Company is one of the world s leading manufacturers of tires and rubber products with one of the most recognizable brand names in the world. We have a broad global footprint with 102 manufacturing facilities in 29 countries. We operate our business through six operating segments: North American Tire; European Union Tire; Eastern Europe, Middle East and Africa Tire (Eastern Europe Tire); Latin American Tire; Asia Pacific Tire; and Engineered Products.

Since 2003 we have been implementing a turnaround strategy aimed at cost reductions, productivity improvements, capital structure improvements and new product developments. Throughout 2005 we continued to make progress on this strategy. In 2005 we recorded net income of $228 million compared to net income of $115 million in the comparable period of 2004. In addition, in 2005 our total segment operating income increased to nearly $1.2 billion from $946 million in 2004, reflecting an increase in segment operating income in all five of our tire segments. Total segment operating margin also improved to 5.9% in 2005 from 5.2% in 2004. See Results of Operations Segment Information for additional information. Although segment operating margin in North American Tire also improved in 2005 to 1.8% from 0.9% in 2004, segment operating margin for North American Tire continues to lag behind that of our other tire segments. The improvement was driven by our strategy to focus on the higher value replacement market and being more selective in the OE market, strong performance of high performance and premium branded tires, our ability to recover higher raw material costs through pricing actions and the results of our cost reduction programs. To extend and enhance our turnaround strategy, in September 2005 we announced additional cost reduction initiatives we plan to implement over the next several years. The initiatives include reducing our high-cost manufacturing capacity by between 8 percent and 12 percent resulting in anticipated annual savings of between $100 million and $150 million. In connection with the reduction in manufacturing capacity, we anticipate incurring cash restructuring charges of approximately $150 million to $250 million over the next three years.

In 2005, we continued our transformation to a market-driven, consumer-focused company with the introduction in North America of the Fortera featuring TripleTred Technology, a premium SUV tire incorporating the same technology we introduced with the successful launch of our Assurance line of tires in 2004. In Europe, we introduced two new high performance winter tires, the Goodyear Ultra Grip 7 and Dunlop SP Winter Sport 3D, both of which have received highly favorable consumer reviews.

We also continued to make progress on our capital structure improvement plan in 2005 with the completion of three asset dispositions: (i) the sale of our Indonesian natural rubber plantation at a sale price of approximately $70 million, (ii) the sale of our Wingtack adhesive resin business in which we received approximately $55 million in cash and retained about $10 million in working capital, and (iii) the sale of the assets of our North American farm tire business to Titan International for approximately $100 million. We also announced that we are exploring the possible sale of our Engineered Products business. We also successfully lengthened a significant portion of our debt maturities with the refinancing of our primary credit facilities in April 2005. While these and other activities have improved our liquidity position, we continue to review potential divestitures of other non-core assets and other financing options, including the issuance of additional equity.

As a result of our focus on the higher margin replacement products, in 2005 we estimate that we had a slight increase in share of sales of replacement tires compared to 2004. In the OE market we estimate that our share of sales increased primarily as a result of gains in our international markets. In 2006, we estimate that industry volume for OE and replacement tires in the European Union will be flat. In North America, we estimate volume growth of about 5% for commercial OE tires and a slight decrease in volume for consumer OE tires. We also anticipate approximately 2% of growth in industry volume in both consumer and commercial replacement tires.

While our operating results continued to improve in 2005, we continue to face several challenges, including rising raw material costs (for the full year 2005 raw material costs increased approximately 11% compared to 2004), currency fluctuations, increasing competition from low-cost manufacturers, a high level of debt and significant pension funding requirements, including domestic pension funding obligations in 2006 of as much as $750 million. Subject to the outcome of pending legislation, our domestic pension obligations are expected to peak in 2006. However, we anticipate being subject to significant required pension funding obligations in 2007 and beyond. Our ability to successfully implement our turnaround strategy will depend, in large part, on our ability to address and manage these challenges. In the fourth quarter of 2005, our segment operating income declined slightly compared to the prior year. This reduction was primarily due to the impact of the hurricanes, higher than expected raw material costs and production adjustments to reduce tire inventories, particularly in Europe and Latin America.

In the fall of 2005, we implemented temporary reductions in production at our North American Tire facilities due to disruptions in the supply of certain raw materials resulting from the impact of Hurricanes Katrina and Rita. The hurricanes had an adverse impact of approximately $31 million on our results of operations in 2005 ($21 million of which related to the fourth quarter) primarily reflecting the unabsorbed fixed costs related to the temporary closures of our chemical plants on the Texas Gulf Coast and production cuts at our North American Tire plants as well as the impairment of certain assets, and loss of inventories.

Out-of-period adjustments totaled $8 million in after-tax income in the fourth quarter of 2005 and primarily related to income taxes. Of this amount, $3 million relates to prior quarters of 2005. For the year ended December 31, 2005 we recorded approximately $3 million in net after-tax expense relating to prior periods.

We remain subject to a Securities and Exchange Commission (SEC) investigation into the facts and circumstances surrounding the restatement of our historical financial statements. In connection with this investigation, we received a Wells Notice from the staff of the SEC in August 2005. The Wells Notice is described more fully under the heading Legal Proceedings in this Prospectus. Also as described in Item 9A of the Form 10-K for the year ended December 31, 2005, we remediated two material weaknesses in our internal control over financial reporting and have determined that our internal control over financial reporting was effective as of December 31, 2005.

Beginning in 2006 we will be working with the United Steelworkers of America (USW) to extend or renegotiate the master collective bargaining agreement that covers approximately 13,600 employees in the United States and expires in July 2006. The outcome of these collective bargaining negotiations cannot presently be determined. If we are unable to reach an agreement with the USW regarding the terms of a collective bargaining agreement, we may be subject to work interruptions or stoppages that could have a material adverse impact on our consolidated results of operations, financial positions and liquidity.

Our results of operations, financial position and liquidity could be adversely affected in future periods by loss of market share or lower demand in the replacement market or the OE industry, which would result in lower levels of plant utilization and an increase in unit costs. Also, we could experience higher raw material and energy costs in future periods. These costs, if incurred, may not be recoverable due to pricing pressures present in today s highly competitive market and we may not be able to continue improving our product mix. Our future results of operations are also dependent on our ability to (i) successfully implement cost reduction programs to address, among other things, higher wage and benefit costs, and (ii) where necessary, reduce excess manufacturing capacity. We are unable to predict future currency fluctuations. Sales and earnings in future periods would be unfavorably impacted if the U.S. dollar strengthens against various foreign currencies, or if economic conditions deteriorate in the economies in which we operate. Continued volatile economic conditions or changes in government policies in emerging markets could adversely affect sales and earnings in future periods. We may also be impacted by economic disruptions associated with global events including natural disasters, war, acts of terror and civil obstructions. For additional factors that may impact our business and results of operations please see the information set forth under the heading Risk Factors in this prospectus.

Results of Operations Consolidated

(All per share amounts are diluted)

2005 Compared to 2004

Net Sales

Net sales in 2005 were $19.7 billion, increasing $1.4 billion or 7% compared to 2004. Net income of $228 million, or $1.16 per share, was recorded in 2005 compared to net income of $115 million, or $0.63 per share in 2004.

Net sales in 2005 for our tire segments were impacted favorably by price and product mix by approximately $737 million, primarily related to price increases to offset higher raw material costs, higher volume of approximately $186 million and foreign currency translation of approximately $175 million. Sales also increased approximately $158 million due to improvements in the Engineered Products Division, primarily related to improved price and product mix of $65 million, increased volume of $59 million and foreign currency translation of $35 million.

The following table presents our tire unit sales for the periods indicated:

	Year Ended December 31,		
	2005	**2004**	**% Change**
(In millions of tires)			
Replacement Units			
North American Tire (U.S. and Canada)	71.2	70.8	0.5%
International	90.8	88.8	2.2%
Total	162.0	159.6	1.5%
OE Units			
North American Tire (U.S. and Canada)	30.7	31.7	(3.3)%
International	33.7	32.0	5.5%
Total	64.4	63.7	1.1%
Goodyear worldwide tire units	226.4	223.3	1.4%

Worldwide replacement unit sales in 2005 increased from 2004 due primarily to improvements in European Union Tire. OE unit sales in 2005 increased from 2004 due primarily to improvements in Asia Pacific Tire, Latin American Tire and Eastern Europe Tire.

Cost of Goods Sold

Cost of goods sold (CGS) was $15.8 billion in 2005, an increase of $1.1 billion, or 7% compared to the 2004 period. CGS decreased to 80.0% of sales in 2005 compared to 80.1% in 2004. CGS for our tire segments in 2005 increased due to higher raw material costs of approximately $526 million, higher volume of approximately $146 million, product mix-related manufacturing cost increases of approximately $141 million and foreign currency translation of approximately $71 million. Partially offsetting these increases were decreased costs of $37 million from rationalization activities and $42 million of lower other post-employment benefit costs (OPEB). Also included in these costs were $21 million of hurricane related expenses. CGS also increased by $168 million in the Engineered Products Division primarily related to higher conversion costs of $33 million, increased raw material costs of $30 million, increased foreign currency translation of $28 million, higher volume of $26 million and $21 million of mix.

Research and development expenditures are expensed in CGS as incurred and were $365 million in 2005, compared to $364 million in 2004. Research and development expenditures in 2006 are expected to be approximately $360 million to $370 million.

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Selling, Administrative and General Expense

Selling, administrative and general expense (SAG) was $2.9 billion in 2005, an increase of $42 million or 1% compared to 2004. SAG in 2005 was 14.6% of sales, compared to 15.4% in 2004. The increase in our tire segments was driven primarily by wage and benefits expenses that increased by nearly $46 million, which included an OPEB savings of $11 million, when compared to 2004. Foreign currency translation, primarily in Latin American Tire, increased SAG in 2005 by approximately $14 million. In addition, SAG increased by $16 million due to our acquisition and consolidation of the remaining 50% interest of a Swedish retail subsidiary during the third quarter of 2004. $10 million of costs related to hurricanes also impacted SAG in 2005. SAG in 2005 included expenses for professional fees associated with the restatement and SEC investigation as well as costs for Sarbanes-Oxley compliance. These costs decreased $26 million and $11 million, respectively from 2004 levels. In addition, rationalization activities decreased SAG by $8 million.

Interest Expense

Interest expense increased by $42 million in 2005 from $369 million in 2004, primarily as a result of higher average interest rates, debt levels and interest penalties. We expect interest expense to increase in 2006 primarily due to higher interest rates.

Other (Income) and Expense

Other (income) and expense was $70 million of expense in 2005, an increase of $47 million compared to $23 million of expense in 2004. Income from settlements with certain insurance companies related to environmental insurance coverage decreased $128 million in 2005 from 2004. General and product liability-discontinued product expense decreased $44 million from 2004 primarily due to $32 million of insurance settlements received in 2005. 2005 also included greater net losses on asset sales of $32 million, primarily due to the $73 million loss on the sale of the Farm Tire business in North American Tire. These factors were partially offset by insurance recoveries in 2005 related to fire losses experienced in 2004 at company facilities in Germany, France and Thailand, which reduced expenses by $26 million from 2004. Interest income increased $25 million in 2005 due to higher average cash balances and higher interest rates, and income from equity in earnings of affiliates increased by $3 million in 2005. Expense from financing fees and financial instruments decreased $8 million compared to 2004.

For further information, refer to the Note to the Consolidated Financial Statements No. 3, Other (Income) and Expense, included herein.

Income Taxes

For 2005, we recorded tax expense of $250 million on income before income taxes and cumulative effect of accounting change and minority interest in net income of subsidiaries of $584 million. For 2004, we recorded tax expense of $208 million on income before income taxes and minority interest in net income of subsidiaries of $381 million.

The difference between our effective tax rate and the U.S. statutory rate was due primarily to our continuing to maintain a full valuation allowance against our net Federal and state deferred tax assets.

Income tax expense in 2005 and 2004 includes net favorable tax adjustments totaling $27 million and $60 million, respectively. These adjustments related primarily to the release of certain foreign valuation allowances for 2005 and primarily for the settlement of prior years tax liabilities in 2004.

The American Job Creation Act of 2004 (the Act) was signed into law in October 2004 and replaces an export incentive with a deduction from domestic manufacturing income. As we are both an exporter and a domestic manufacturer and in a U.S. tax loss position, this change did not have a material impact on our income tax provision for 2005. It also provided for a special one-time tax deduction of 85% of certain foreign earnings that were repatriated no later than 2005. We evaluated the effects of this provision in light of our 2005 U.S. loss position and determined not to repatriate under the provisions of the Act as it would not provide a tax benefit to us.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We also recognize tax benefits to the extent that it is probable that our positions will be sustained when challenged by the taxing authorities. As of December 31, 2005, we had not recognized tax benefits of approximately $157 million ($118 million net of minority interest in net income of subsidiaries) relating to the reorganization of certain legal entities in 2001, which is the subject of a tax examination that could be settled in 2006. Pursuant to the reorganization, our tax payments have been reduced by approximately $67 million through December 31, 2005. Should the ultimate outcome be unfavorable, we would be required to make a cash payment, with interest, for all tax benefits claimed as of that date.

For further information, refer to the Note to the Consolidated Financial Statements No. 13, Income Taxes, included herein.

Rationalization Activity

To maintain global competitiveness, we have implemented rationalization actions over the past several years for the purpose of reducing excess capacity, eliminating redundancies and reducing costs. We recorded net rationalization costs of $11 million in 2005 and $56 million in 2004.

2005

Rationalization charges in 2005 consisted of manufacturing associate reductions, retail store reductions, IT associate reductions, and a sales function reorganization in European Union Tire; manufacturing and administrative associate reductions in Eastern Europe Tire; sales, marketing, and research and development associate reductions in Engineered Products; and manufacturing and corporate support group associate reductions in North American Tire.

For 2005, $11 million of net charges were recorded, which included $29 million of new rationalization charges. The charges were partially offset by $18 million of reversals of rationalization charges no longer needed for their originally-intended purposes. The $18 million of reversals consisted of $11 million of associate-related costs for plans initiated in 2004 and 2003, and $7 million primarily for non-cancelable leases that were exited during the first quarter related to plans initiated in 2001 and earlier. The $29 million of new charges primarily represented associate-related costs and consist of $26 million for plans initiated in 2005 and $3 million for plans initiated in 2004 and 2003. Approximately 900 associates will be released under the programs initiated in 2005, of which approximately 425 were released by December 31, 2005.

In 2005, $35 million was incurred primarily for associate severance payments, $1 million for cash pension settlement benefit costs, $1 million for non-cash pension and postretirement special termination benefit costs, and $8 million was incurred primarily for non-cancelable lease costs.

The accrual balance of $34 million at December 31, 2005 includes approximately $10 million related to long-term non-cancelable lease costs and approximately $24 million of employee severance and other costs that are expected to be substantially utilized within the next twelve months.

2004

2004 rationalization activities consisted primarily of warehouse, manufacturing and sales and marketing associate reductions in Engineered Products, a farm tire manufacturing consolidation in European Union Tire, administrative associate reductions in North American Tire, European Union Tire and corporate functional groups, and manufacturing sales and research and development associate reductions in North American Tire. In fiscal year 2004, net charges were recorded totaling $56 million. The net charges included reversals of $39 million related to reserves from rationalization actions no longer needed for their originally-intended purpose, and new charges of $95 million. Included in the $95 million of new charges was $77 million for plans initiated in 2004. Approximately 1,165 associates will be released under programs initiated in 2004, of which

approximately 1,085 have been released to date (445 in 2005 and 640 in 2004). The costs of the 2004 actions consisted of $40 million related to future cash outflows, primarily for associate severance costs, including $32 million in non-cash pension curtailments and postretirement benefit costs and $5 million of non-cancelable lease costs and other exit costs. Costs in 2004 also included $16 million related to plans initiated in 2003, consisting of $14 million for non-cancelable lease costs and other exit costs and $2 million of associate severance costs. The reversals are primarily the result of lower than initially estimated associate severance costs of $35 million and lower leasehold and other exit costs of $4 million. Of the $35 million of associate severance cost reversals, $12 million related to previously-approved plans in Engineered Products that were reorganized into the 2004 warehouse, manufacturing, and sales and marketing associate reductions.

General

In 2006, we estimate savings of approximately $39 million (approximately $25 million in CGS and approximately $14 million in SAG) for plans initiated in 2005. The savings realized in 2005 for the 2005 plans totaled approximately $4 million. We estimate that CGS and SAG were reduced in 2005 by approximately $19 million and $26 million, respectively, as a result of the implementation of the 2004 plans. 2005 savings related to 2004 rationalization activities did not achieve expected levels primarily due to plan changes and implementation delays.

For further information, refer to the Note to the Consolidated Financial Statements No. 2, Costs Associated with Rationalization Programs, included herein.

Cumulative Effect of Accounting Change

We adopted FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47) an interpretation of FASB Statement No. 143, Accounting for Asset Retirement Obligations (SFAS 143) on December 31, 2005. FIN 47 requires that the fair value of a liability for an asset retirement obligation (ARO) be recognized in the period in which it is incurred and the settlement date is estimable, and is capitalized as part of the carrying amount of the related tangible long-lived asset. Our AROs are primarily associated with the cost of removal and disposal of asbestos.

Upon adoption of FIN 47, on December 31, 2005, we recognized a non-cash cumulative effect charge of approximately $11 million, net of taxes and minority interest of $3 million.

2004 compared to 2003

Net Sales

Net sales in 2004 were $18.4 billion, an increase of $3.3 billion compared to 2003. Net income of $115 million, or $0.63 per share, was recorded in 2004. A net loss of $807 million, or $4.61 per share, was recorded in 2003. The 2004 net sales increase was primarily related to the consolidation of two affiliates deemed to be variable interest entities, SPT and Tire & Wheels Assemblies (T&WA), in January 2004. The consolidation of these businesses increased net sales in 2004 by approximately $1.2 billion. Additionally, in our tire segments improved price and product mix improvements, primarily in North American Tire, increased 2004 net sales by approximately $762 million. Higher unit volume in North American Tire, Latin American Tire, Eastern Europe Tire and European Union Tire had a favorable impact on 2004 net sales of approximately $412 million. Currency translation, mainly in Europe, favorably affected 2004 net sales by approximately $507 million. Sales also increased approximately $267 million due to improvements in the Engineered Products Division, primarily related to improved volume of $194 million, price and product mix of $37 million and currency translation of approximately $35 million.

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The following table presents our tire unit sales for the periods indicated:

	Year Ended December 31,		
(In millions of tires)	2004	2003	% Change
Replacement Units			
North American Tire (U.S. and Canada)	70.8	68.6	3.2%
International	88.8	82.0	8.3%
Total	159.6	150.6	6.0%
OE Units			
North American Tire (U.S. and Canada)	31.7	32.6	(2.6)%
International	32.0	30.3	5.4%
Total	63.7	62.9	1.2%
Goodyear worldwide tire units	223.3	213.5	4.6%

Worldwide replacement unit sales in 2004 increased from 2003, due primarily to the consolidation of SPT and improvement in North American Tire, Latin American Tire and Eastern Europe Tire. OE unit sales in 2004 increased from 2003 due primarily to the consolidation of SPT and improvement in Eastern Europe Tire, Latin American Tire and European Union Tire.

Cost of Goods Sold

Cost of goods sold (CGS) was $14.7 billion in 2004, an increase of $2.2 billion compared to 2003. CGS was 80.1% of sales in 2004, compared to 82.7% in 2003. CGS in 2004 increased by approximately $1.0 billion due to the previously mentioned consolidation of SPT and T&WA in accordance with FIN 46R. CGS for our tire segments in 2004 increased by approximately $310 million in 2004 due to higher volume and approximately $382 million due to currency translation, primarily in Europe. Manufacturing costs related to changes in product mix increased 2004 CGS by approximately $175 million. In addition, 2004 raw material costs increased by approximately $268 million, although conversion costs were flat. Savings from rationalization programs totaling approximately $107 million favorably affected CGS in 2004. CGS in 2004 also includes a fourth quarter benefit of approximately $23 million resulting from a settlement with certain suppliers of various raw materials. CGS also increased $183 million in the Engineered Products Division primarily related to higher volume of $119 million and translation of $27 million.

Research and development expenditures were $364 million in 2004, compared to $339 million in 2003.

Selling, Administrative and General Expense

Selling, administrative and general expense (SAG) was $2.8 billion in 2004, an increase of $0.5 billion compared to 2003. SAG in 2004 was 15.4% of sales, compared to 15.7% in 2003. SAG increased by approximately $200 million in 2004 due to the previously mentioned consolidation of SPT and T&WA in accordance with FIN 46R. SAG in 2004 included expenses of approximately $30 million for professional fees associated with the restatement and SEC investigation, and approximately $25 million for Sarbanes-Oxley compliance. Currency translation, in our tire segments, primarily in Europe, increased SAG in 2004 by approximately $98 million. Advertising expenses were approximately $46 million higher due in part to the launch of the Assurance tire in North America, and wage and benefit costs rose by approximately $46 million. SAG in 2004 benefited from approximately $28 million in savings from rationalization programs.

Interest Expense

Interest expense in 2004 was $369 million, an increase of $73 million compared to $296 million in 2003. Interest expense increased in 2004 from 2003 due to higher average debt levels, higher average interest rates and the April 1, 2003 restructuring and refinancing of our credit facilities.

Other (Income) and Expense

Other (income) and expense was $23 million of expense in 2004, a decrease of $294 million compared to $317 million of expense in 2003. The decrease in expense was primarily due to settlements with certain insurance companies related to environmental insurance coverage which provided additional income of $157 million in 2004. General and product liability-discontinued product net expense in 2004 related to Entran II decreased $138 million and net expense from asbestos claims increased by $53 million. Expense from insurance fire deductible in 2004 was $12 million related to fires in 2004 at company facilities in Germany, France and Thailand. Net loss on asset sales decreased $21 million in 2004, primarily related to a loss of $18 million on the sale of 20,833,000 shares of common stock of Sumitomo Rubber Industries, Ltd. in 2003. Equity in earnings of affiliates increased $23 million in 2004, primarily due to improved results at Rubbernetwork.com and the consolidation of SPT. Our share of losses at SPT was included in 2003 in Equity in earnings of affiliates.

Income Taxes

For 2004, we recorded tax expense of $208 million on income before income taxes and minority interest in net income of subsidiaries of $381 million. For 2003, we recorded tax expense of $117 million on a loss before income taxes and minority interest in net income of subsidiaries of $657 million.

The difference between our effective tax rate and the U.S. statutory rate was due primarily to our continuing to maintain a full valuation allowance against our net U.S. Federal and state deferred tax assets.

Income tax expense in 2004 includes net favorable tax adjustments totaling $60 million. These adjustments related primarily to the settlement of prior years tax liabilities.

Rationalization Activity

To maintain global competitiveness, we have implemented rationalization actions over the past several years for the purpose of reducing excess capacity, eliminating redundancies and reducing costs. We recorded net rationalization costs of $56 million in 2004 and $291 million in 2003.

2004

2004 rationalization activities consisted primarily of warehouse, manufacturing and sales and marketing associate reductions in Engineered Products, a farm tire manufacturing consolidation in European Union Tire, administrative associate reductions in North American Tire, European Union Tire and corporate functional groups, and manufacturing, sales and research and development associate reductions in North American Tire. In fiscal year 2004, net charges were recorded totaling $56 million. The net charges included reversals of $39 million related to reserves from rationalization actions no longer needed for their originally-intended purpose, and new charges of $95 million. Included in the $95 million of new charges were $77 million for plans initiated in 2004. Approximately 1,165 associates will be released under programs initiated in 2004, of which approximately 1,085 associates have been released to date (445 in 2005 and 640 in 2004). The costs of the 2004 actions consisted of $40 million related to future cash outflows, primarily for associate severance costs, including $32 million in non-cash pension curtailments and postretirement benefit costs and $5 million of non-cancelable lease costs and other exit costs. Costs in 2004 also included $16 million related to plans initiated in 2003, consisting of $14 million for non-cancelable lease costs and other exit costs and $2 million of associate severance costs. The reversals are primarily the result of lower than initially estimated associate severance costs of $35 million and lower leasehold and other exit costs of $4 million. Of the $35 million of associate severance cost reversals, $12 million related to previously-approved plans in Engineered Products that were reorganized into the 2004 warehouse, manufacturing, and sales and marketing associate reductions.

2003

In 2003, net charges were recorded totaling $291 million. The net charges included reversals of $16 million related to reserves from rationalization actions no longer needed for their originally intended

purpose, and new charges of $307 million. The 2003 rationalization actions consisted of manufacturing, research and development, administrative and retail consolidations in North America, Europe and Latin America. Of the $307 million of new charges, $175 million related to future cash outflows, primarily associate severance costs, and $132 million related primarily to non-cash special termination benefits and pension and retiree benefit curtailments. Approximately 4,300 associates have been released under the programs initiated in 2003, of which approximately 100 were exited in 2005, approximately 1,500 were exited during 2004 and approximately 2,700 were exited in 2003. The reversals are primarily the result of lower than initially estimated associate-related payments of approximately $12 million, favorable sublease contract signings in the European Union of approximately $3 million and lower contract termination costs in the United States of approximately $1 million.

As part of the 2003 rationalization program, we closed our Huntsville, Alabama tire facility in the fourth quarter of 2003. Of the $307 million of new rationalization charges in 2003, approximately $138 million related to the Huntsville closure and were primarily for associate-related costs, including severance, special termination benefits and pension and retiree benefit curtailments. The Huntsville closure also resulted in charges to CGS of approximately $35 million for asset impairments and $85 million for accelerated depreciation and the write-off of spare parts. In addition, 2003 CGS included charges totaling approximately $8 million to write-off construction in progress related to the research and development rationalization plan, and approximately $5 million for accelerated depreciation on equipment taken out of service at European Union Tire s facility in Wolverhampton, England.

Recently Issued Accounting Pronouncements

The FASB has issued Statement of Financial Accounting Standards No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4 (SFAS 151). The provisions of SFAS 151 are intended to eliminate narrow differences between the existing accounting standards of the FASB and the International Accounting Standards Board (IASB) related to inventory costs, in particular, the treatment of abnormal idle facility expense, freight, handling costs and spoilage. SFAS 151 requires that these costs be recognized as current period charges regardless of the extent to which they are considered abnormal. The provisions of SFAS 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We early adopted SFAS 151 in 2005. The adoption of SFAS 151 did not have a significant impact on our results of operations or financial position.

The FASB has issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R) which replaced SFAS 123 and superseded Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Under the provisions of SFAS 123R, companies are required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exception). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. On April 14, 2005, the SEC approved a delay to the effective date of SFAS 123R. Under the new SEC rule, SFAS 123R is effective for annual periods that begin after June 15, 2005. SFAS 123R applies to all awards granted, modified, repurchased or cancelled by us after December 31, 2005 and to unvested awards at the date of adoption. We will adopt SFAS 123R in the first quarter of 2006. In 2006, we will recognize approximately $15 million in expense for stock options, which were previously not expensed under APB 25.

The FASB issued FSP FAS 123R-2, Practical Accommodation to the Application of Grant Date as Defined in FAS 123R (FSP 123R-2) in October 2005. FSP 123R-2 provides guidance on the application of grant date as defined in SFAS No. 123R. In accordance with this standard, a grant date of an award exists if a) the award is a unilateral grant and b) the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period from the date of approval. We will adopt this standard when we adopt SFAS 123R, and it is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154). SFAS 154 is a replacement of Accounting Principles Board No. 20, Accounting Changes and FASB Statement No. 3 Reporting Accounting Changes in Interim Financial Statements. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS 154. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. We will adopt this pronouncement beginning in fiscal year 2006.

In June 2005, the FASB staff issued FASB Staff Position 143-1 Accounting for Electronic Equipment Waste Obligations (FSP 143-1) to address the accounting for obligations associated with the Directive 2002/96/ EC on Waste Electrical and Electronic Equipment (the Directive) adopted by the European Union (EU). The Directive effectively obligates a commercial user to incur costs associated with the retirement of a specified asset that qualifies as historical waste equipment. The commercial user should apply the provisions of SFAS 143 and FIN 47. FSP 143-1 shall be applied the later of the first reporting period ending after June 8, 2005 or the date of the adoption of the law by the applicable EU-member country. We adopted the FSP at certain of our European operations where applicable legislation was adopted. The impact of the adoption on the consolidated financial statements was not significant.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Actual results could differ from those estimates. Significant estimates include:

- general and product liability and other litigation,
- workers compensation,
- recoverability of goodwill and other intangible assets,
- deferred tax asset valuation allowance and uncertain income tax positions, and
- pension and other postretirement benefits.

On an ongoing basis, management reviews its estimates, based on currently available information. Changes in facts and circumstances may alter such estimates and affect results of operations and financial position in future periods.

General and Product Liability and Other Litigation. General and product liability and other recorded litigation liabilities are recorded based on management s analysis that a loss arising from these matters is probable. If the loss can be reasonably estimated, we record the amount of the estimated loss. If the loss is estimated using a range and no point within the range is more probable than another, we record the minimum amount in the range. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Loss ranges are based upon the specific facts of each claim or class of claim and were determined after review by counsel. Court rulings on our cases or similar cases could impact our assessment of the probability and estimate of our loss, which could have an impact on our reported results of operations, financial position and liquidity. We record insurance recovery receivables related to our litigation claims when it is probable we will receive reimbursement from the insurer. Specifically, we are a defendant in numerous lawsuits alleging various asbestos-related personal injuries purported to result from alleged exposure to asbestos 1) in certain rubber encapsulated products or aircraft braking systems manufactured by us in the past, or 2) in certain of our facilities. Typically, these lawsuits have been brought against multiple defendants in state and Federal courts.

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We engage an independent asbestos valuation firm to review our existing reserves for pending claims, provide a reasonable estimate of the liability associated with unasserted asbestos claims, and determine our receivables from probable insurance recoveries.

A significant assumption in our estimated liability is that it represents our estimated liability through 2009, which represents the period over which the liability can be reasonably estimated. Due to the difficulties in making these estimates, analysis based on new data and/or changed circumstances arising in the future could result in an increase in the recorded obligation in an amount that cannot be reasonably estimated, and that increase could be significant. We had recorded liabilities for both asserted and unasserted claims, inclusive of defense costs, totaling $104 million at December 31, 2005 and $119 million at December 31, 2004. The portion of the liability associated with unasserted asbestos claims and related defense costs was $31 million at December 31, 2005 and $38 million at December 31, 2004. At December 31, 2005, our liability with respect to asserted claims and related defense costs was $73 million, compared to $81 million at December 31, 2004.

We maintain primary insurance coverage under coverage-in-place agreements as well as excess liability insurance with respect to asbestos liabilities. We record a receivable with respect to such policies when we determine that recovery is probable and we can reasonably estimate the amount of a particular recovery. This determination is based on consultation with our outside legal counsel and giving consideration to relevant factors, including the ongoing legal proceedings with certain of our excess coverage insurance carriers, their financial viability, their legal obligations and other pertinent facts.

The valuation firm also assisted us in valuing receivables recorded for probable insurance recoveries. Based upon the model employed by the valuation firm, as of December 31, 2005, (i) we had recorded a receivable related to asbestos claims of $53 million, compared to $108 million at December 31, 2004, and (ii) we expect that approximately 50% of asbestos claim related losses would be recoverable up to our accessible policy limits. The receivable recorded consists of an amount we expect to collect under coverage-in-place agreements with certain primary carriers as well as an amount we believe is probable of recovery from certain of our excess coverage insurance carriers. Of this amount, $9 million was included in Current Assets as part of Accounts and Notes receivable at December 31, 2005 and 2004.

In addition to our asbestos claims, we are a defendant in various lawsuits related to our Entran II rubber hose product. During 2004, we entered into a settlement agreement to address a substantial portion of our Entran II liabilities. The claims associated with the plaintiffs that opted not to participate in the settlement will be evaluated in a manner consistent with our other litigation claims. We had recorded liabilities related to Entran II claims totaling $248 million at December 31, 2005 and $307 million at December 31, 2004.

Workers Compensation. We recorded liabilities, on a discounted basis, totaling $250 million and $231 million for anticipated costs related to workers compensation at December 31, 2005 and 2004, respectively. The costs include an estimate of expected settlements on pending claims, defense costs and a provision for claims incurred but not reported. These estimates are based on our assessment of potential liability using an analysis of available information with respect to pending claims, historical experience, and current cost trends. The amount of our ultimate liability in respect of these matters may differ from these estimates. We periodically update our loss development factors based on actuarial analyses. At December 31, 2005, the liability was discounted using the risk-free rate of return.

For further information on general and product liability and other litigation, environmental matters and workers compensation, refer to the Note to the Consolidated Financial Statements No. 17, Commitments and Contingent Liabilities, included herein.

Recovery of Goodwill and Other Intangible Assets. Generally accepted accounting principles do not permit goodwill or other intangible assets with indefinite lives to be amortized. Rather, these assets must be tested annually for impairment. The impairment testing would have to be performed more frequently than on an annual basis as a result of the occurrence of a potential indicator of impairment.

For purposes of our annual impairment testing, which is conducted during the third quarter each year, we determine the estimated fair values of our reporting units using a valuation methodology based upon an

EBITDA multiple using comparable companies in the global automotive industry sector. The EBITDA multiple is adjusted if necessary to reflect local market conditions and recent transactions. The EBITDA of the reporting units are adjusted to exclude certain non-recurring or unusual items and corporate charges. EBITDA is based upon a combination of historical and forecasted results. Significant decreases in EBITDA in future periods could be an indication of a potential impairment. Additionally, valuation multiples in the global automotive industry sector would have to decline in excess of 50% to indicate a potential goodwill impairment.

Goodwill totaled $637 million and other intangible assets with indefinite lives totaled $110 million at December 31, 2005. We completed our 2005 annual valuation during the third quarter of 2005. The valuation indicated that there was no impairment of goodwill or other intangible assets with indefinite lives.

Deferred Tax Asset Valuation Allowance and Uncertain Income Tax Positions. At December 31, 2005 and 2004, we had valuation allowances aggregating $2 billion against all of our net Federal and state and some of our foreign net deferred tax assets.

The valuation allowance was calculated in accordance with the provisions of SFAS 109 which requires an assessment of both negative and positive evidence when measuring the need for a valuation allowance. In accordance with SFAS 109, evidence, such as operating results during the most recent three-year period, is given more weight than our expectations of future profitability, which are inherently uncertain. Our losses in the U.S., and certain foreign locations in recent periods represented sufficient negative evidence to require a full valuation allowance against our net Federal, state and certain of our foreign deferred tax assets under SFAS 109. We intend to maintain a valuation allowance against our net deferred tax assets until sufficient positive evidence exists to support realization of such assets.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We also recognize tax benefits to the extent that it is probable that our positions will be sustained when challenged by the taxing authorities. To the extent we prevail in matters for which liabilities have been established, or are required to pay amounts in excess of our liabilities, our effective tax rate in a given period could be materially affected. An unfavorable tax settlement would require use of our cash and result in an increase in our effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the year of resolution.

Pensions and Other Postretirement Benefits. Our recorded liability for pensions and postretirement benefits other than pensions is based on a number of assumptions, including:

- life expectancies,
- retirement rates,
- discount rates,
- long term rates of return on plan assets,
- future compensation levels,
- future health care costs, and
- maximum company-covered benefit costs.

Certain of these assumptions are determined with the assistance of outside actuaries. Assumptions about life expectancies, retirement rates, future compensation levels and future health care costs are based on past experience and anticipated future trends, including an assumption about inflation. The discount rate for our U.S. plans is derived

from a portfolio of corporate bonds from issuers rated AA- or higher by Standard & Poor s as of December 31 and is reviewed annually. The total cash flows provided by the portfolio are similar to the timing of our expected benefit payment cash flows. The long term rate of return on plan assets is based

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on the compound annualized return of our U.S. pension fund over periods of 15 years or more, asset class return expectations and long term inflation. These assumptions are regularly reviewed and revised when appropriate, and changes in one or more of them could affect the amount of our recorded net expenses for these benefits. Other assumptions involving demographic factors such as retirement age, mortality and turnover are evaluated periodically and are updated to reflect our experience and expectations for the future. If the actual experience differs from expectations, our financial position, results of operations and liquidity in future periods could be affected.

The discount rate used in determining the total liability for our U.S. pension and postretirement plans was 5.50% at December 31, 2005, compared to 5.75% at December 31, 2004 and 6.25% for December 31, 2003. The decrease in the rate was due primarily to lower interest rates on long term highly rated corporate bonds. As a result, interest cost included in our net periodic pension cost decreased to $294 million in 2005, compared to $300 million in 2004 and $295 million in 2003. Interest cost included in our worldwide net periodic postretirement benefit cost was $149 million in 2005, compared to $188 million in 2004 and $174 million in 2003. Interest cost was lower in 2005 as a result of the reduction in the postretirement liability due to Medicare Part D. The weighted average remaining service period for employees covered by our U.S. plans is approximately 13 years.

The following table presents the sensitivity of our U.S. projected pension benefit obligation, accumulated other postretirement obligation, shareholders equity, and 2006 expense to the indicated increase/decrease in key assumptions:

		+/ - Change at December 31, 2005		
	Change	PBO/ABO	Equity	2006 Expense
(Dollars in millions)				
Pensions:				
Assumption:				
Discount rate	+/- 0.5%	$ 340	$ 340	$ 30
Actual return on assets	+/- 1.0%	N/A	30	5
Estimated return on assets	+/- 1.0%	N/A	N/A	34
Postretirement Benefits:				
Assumption:				
Discount rate	+/- 0.5%	$ 103	N/A	$ 2
Health care cost trends total cost	+/- 1.0%	11	N/A	1

The continuous decline in U.S. discount rates, have largely contributed to an unrecognized actuarial loss of $1,646 million in our U.S. pension plans as of December 31, 2005. For purposes of determining 2005 U.S. net periodic pension expense, our funded status was such that we recognized $86 million of the unrecognized actuarial loss in 2005. We will recognize approximately $95 million of unrecognized actuarial losses in 2006. Given no change to the assumptions at our December 31, 2005 measurement, actuarial loss recognition will remain at an amount near that to be recognized in 2006 over the next few years before it begins to gradually decline.

The actual rate of return on our U.S. pension fund was 8.5%, 12.1% and 23.5% in 2005, 2004 and 2003, respectively, as compared to the expected rate of return of 8.5%.

This decline in U.S. discount rates also produced a large portion of the unrecognized actuarial loss of $355 million in our worldwide postretirement plans as of December 31, 2005. The unrecognized actuarial loss decreased from 2004 primarily due to a gain from the recognition of Medicare Part D. For purposes of determining 2005 worldwide net periodic postretirement cost, we recognized $10 million of the unrecognized actuarial loss in 2005. We will recognize approximately $13 million of unrecognized actuarial losses in 2006. If our future experience is consistent with our assumptions as of December 31, 2005, actuarial loss recognition will gradually decline from the 2006 levels.

For further information on pensions and postretirement benefits, refer to the Note to the Consolidated Financial Statements No. 12, Pensions, Other Postretirement Benefits and Savings Plans, included herein.

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Results of Operations Segment Information

Segment information reflects our strategic business units (SBUs), which are organized to meet customer requirements and global competition. The Tire business is managed on a regional basis. Engineered Products is managed on a global basis.

Effective January 1, 2005 our former Chemical Products Segment was integrated into North American Tire. Intercompany sales from Chemical Products to other segments are no longer reflected in our segment sales. In addition, segment operating income from intercompany sales from Chemical Products to other segments is no longer reflected in our total segment operating income.

Results of operations are measured based on net sales to unaffiliated customers and segment operating income. Segment operating income includes transfers to other SBUs. Segment operating income is computed as follows: Net Sales less CGS (excluding accelerated depreciation charges and asset impairment charges) and SAG (including certain allocated corporate administrative expenses). Segment operating income also includes equity in (earnings) losses of most unconsolidated affiliates. Equity in (earnings) losses of certain unconsolidated affiliates, including SPT (in 2003) and Rubbernetwork.com, are not included in segment operating income. Segment operating income does not include rationalization charges (credits) and certain other items. Segment assets include those assets under the management of the SBU.

Total segment operating income was nearly $1.2 billion in 2005, $946 million in 2004 and $419 million in 2003. Total segment operating margin (segment operating income divided by segment sales) in 2005 was 5.9%, compared to 5.2% in 2004 and 2.8% in 2003.

Management believes that total segment operating income is useful because it represents the aggregate value of income created by our SBUs and excludes items not directly related to the SBUs for performance evaluation purposes. Total segment operating income is the sum of the individual SBUs segment operating income, as determined in accordance with Statement of Financial Accounting Standard No. 131, Disclosures about Segments of an Enterprise and Related Information. Refer to the Note to the Consolidated Financial Statements No. 15, Business Segments, included herein, for further information and for a reconciliation of total segment operating income to Income (Loss) before Income Taxes and Cumulative Effect of Accounting Change.

North American Tire

	Year Ended December 31,		
(In millions)	2005	2004	2003
Tire Units	101.9	102.5	101.2
Net Sales	$ 9,091	$ 8,569	$ 7,279
Operating Income (Loss)	167	74	(103)
Operating Margin	1.8%	0.9%	(1.4)%

2005 Compared to 2004

North American Tire unit sales in 2005 decreased 0.6 million units or 0.6% from 2004. Replacement unit sales in 2005 increased 0.4 million units or 0.5% from 2004. OE volume in 2005 decreased 1.0 million units or 3.3% from 2004 due primarily to a slowdown in the automotive industry that resulted in lower levels of vehicle production and our selective fitment strategy in the consumer OE business.

Net sales in 2005 increased $522 million or 6% from 2004. Net sales in 2005 increased approximately $353 million due primarily to price increases to offset higher raw material costs and improved mix resulting from our strategy to focus on the higher value consumer replacement market and greater selectivity in the consumer OE market. Also, positively impacting sales in the period was a growth in other tire related businesses including T&WA, our consolidated affiliate, of approximately $167 million, as well as translation of $33 million. The improvements were offset by a decrease in volume of approximately $31 million.

Operating income in 2005 increased $93 million or 126% compared to 2004. The improvement was due to our tire business improved price and product mix of approximately $244 million, driven by factors described

above, lower conversion costs of $85 million, primarily related to the implementation of cost reduction initiatives resulting in productivity improvements, lower other post-employment benefit costs (OPEB) costs and rationalization activities, and lower segment SAG costs of approximately $8 million. The decrease is SAG costs was primarily related to lower OPEB and lower general and product liability expenses, partially offset by higher wage and benefit costs. Also positively impacting our operating income was an approximate $46 million improvement in the earnings of our retail, external chemicals and other tire related businesses. The 2005 period was unfavorably impacted by increased raw material costs of approximately $283 million in our tire business and $25 million of costs associated with the hurricanes.

In connection with our master contract with the USW, employees represented by the USW did not receive service credit under the U.S. hourly pension plan for a two year period ended October 2005. As a result, pension expense was reduced in 2005 and 2004 by approximately $43 million and $44 million, respectively.

Operating income did not include net rationalization charges (credits) totaling $(8) million in 2005 and $9 million in 2004. In addition, operating income did not include losses on asset sales of $43 million in 2005 and $13 million in 2004.

2004 Compared to 2003

North American Tire unit sales in 2004 increased 1.3 million units or 1.3% from 2003. Replacement unit sales in 2004 increased 2.2 million units or 3.2% from 2003. OE volume in 2004 decreased 0.9 million units or 2.6% from 2003. Replacement unit volume in 2004 increased from 2003 due primarily to higher sales of Goodyear brand tires. OE unit sales in 2004 decreased from 2003 due primarily to a slowdown in the automotive industry that resulted in lower levels of vehicle production and our selective fitment strategy in the consumer OE business.

Net sales in 2004 increased $1.3 billion or 18% from 2003. Net sales in 2004 increased $524 million from 2003 due to the consolidation of T&WA in January 2004 in accordance with FIN 46. Sales were also favorably affected by approximately $312 million resulting from favorable price and product mix, due primarily to strong sales of Goodyear brand consumer tires and commercial tires. In addition, net sales benefited by approximately $271 million due to increased volume, mainly in the commercial OE and consumer replacement and retail markets. External chemical sales increased approximately $189 million primarily from increased price and improved volume.

Operating income in 2004 increased $177 million or 172% from 2003. Operating income in 2004 rose from 2003 due primarily to improvements in price and product mix of approximately $201 million, primarily in the consumer and commercial replacement markets. In addition, operating income benefited by approximately $65 million from increased volume, primarily in the consumer replacement, commercial OE and retail markets. Operating income was favorably affected by savings from rationalization programs totaling approximately $78 million. Operating income in 2004 was unfavorably impacted by increased raw material costs of approximately $99 million and higher transportation costs of $32 million. SAG in 2004 was approximately $58 million higher than in 2003, due in part to increased advertising costs of approximately $25 million and increased compensation and benefits costs of approximately $12 million. External chemical operating income improved approximately $14 million due to improved price and product mix and higher volume.

Operating income did not include net rationalization charges totaling $9 million in 2004 and $192 million in 2003. In addition, operating income did not include losses on asset sales of $13 million in 2004 and $4 million in 2003.

European Union Tire

(In millions)	Year Ended December 31, 2005	2004	2003
Tire Units	64.3	62.8	62.3
Net Sales	$ 4,676	$ 4,476	$ 3,922
Operating Income	317	253	130
Operating Margin	6.8%	5.7%	3.3%

2005 Compared to 2004

European Union Tire Segment unit sales in 2005 increased 1.5 million units or 2.4% from 2004. Replacement unit sales increased 2.1 million units or 5.0% due primarily to share gains in the consumer market. OE volume decreased 0.6 million units or 3.4% due to overall softness in markets in the region.

Net sales in 2005 increased $200 million or 4% from 2004. The increase was due primarily to price and product mix of approximately $214 million, driven by price increases to offset higher raw material costs and a favorable mix toward the consumer replacement and commercial markets. Also contributing to the sales increase was a volume increase of approximately $95 million, largely due to increases in the consumer replacement market. This improvement was partially offset by the lower sales in other tire related businesses of $62 million, primarily due to the closure and sale of retail locations, and unfavorable currency translation totaling approximately $43 million.

Operating income in 2005 increased $64 million or 25% compared to 2004 due to improvements in price and product mix of approximately $145 million driven by price increases to offset higher raw material costs and the continued shift towards high performance, ultra-high performance and commercial tires. Also positively impacting operating income was higher volume of $23 million. Operating income was adversely affected by higher raw material costs of approximately $60 million, higher pension costs in the United Kingdom of $23 million, primarily due to a lower discount rate, and higher SAG expenses of approximately $18 million, primarily related to higher distribution and advertising expenses.

Operating income did not include net rationalization charges totaling $8 million in 2005 and $23 million in 2004. In addition, operating income did not include gains on asset sales of $5 million in 2005 and $6 million in 2004.

European Union Tire s results are highly dependent upon the German market, which accounted for 38% of European Union Tire s net sales in 2005. Accordingly, results of operations in Germany will have a significant impact on European Union Tire s future performance.

2004 Compared to 2003

European Union Tire unit sales in 2004 increased 0.5 million units or 0.8% from 2003. Replacement unit sales in 2004 approximated 2003 levels, reflecting product shortages, especially in the first half of 2004. OE volume in 2004 increased 0.5 million units or 2.4% from 2003, due primarily to increased sales of consumer tires and improved conditions in the commercial market.

Net sales in 2004 increased $554 million or 14% from 2003. Net sales in 2004 increased from 2003 due primarily to a benefit of approximately $382 million from currency translation, mainly from the Euro. Net sales rose by approximately $130 million due to improved price and product mix, due primarily to price increases and a shift in mix towards higher priced premium brands. Additionally, higher OE volume increased 2004 net sales by approximately $41 million.

Operating income in 2004 increased $123 million or 95% from 2003. Operating income in 2004 rose from 2003 due primarily to improvements in price and product mix of approximately $135 million. In addition, higher sales volume benefited operating income by approximately $9 million, and higher production and productivity improvements increased 2004 operating income by approximately $4 million. Savings from rationalization actions benefited operating income by approximately $47 million. Operating income rose by

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approximately $13 million from currency translation. Operating income was adversely impacted by higher raw material costs totaling approximately $42 million. SAG rose by approximately $39 million, due primarily to higher selling and advertising expenses related to premium brand tires.

Operating income did not include net rationalization charges totaling $23 million in 2004 and $54 million in 2003. In addition, operating income did not include (gains) losses on asset sales of $(6) million in 2004 and $1 million in 2003.

Eastern Europe, Middle East and Africa Tire

	Year Ended December 31,		
(In millions)	**2005**	**2004**	**2003**
Tire Units	19.7	18.9	17.9
Net Sales	$ 1,437	$ 1,279	$ 1,073
Operating Income	198	194	147
Operating Margin	13.8%	15.2%	13.7%

2005 Compared to 2004

Eastern Europe, Middle East and Africa Tire unit sales in 2005 increased 0.8 million units or 4.5% from 2004 primarily related to increased OE unit sales of 0.4 million or 13.9% primarily due to growth in the automotive industry in South Africa. Replacement units sales increased 0.4 million units or 2.4% driven by growth in emerging markets.

Net sales in 2005 increased by $158 million, or 12% compared to 2004 mainly due to price increases to recover higher raw material costs and favorable product mix due to continued growth of high performance tires and premium brands of approximately $60 million, favorable translation of $42 million, increased volume of approximately $37 million, mainly in emerging markets, as well as increased South African retail sales of approximately $15 million.

Operating income in 2005 increased by $4 million, or 2% from 2004. Operating income in 2005 was favorably impacted by price and product mix of approximately $39 million due to factors described above, improved volume of approximately $16 million primarily in emerging markets, foreign currency translation of approximately $16 million and improvement in other tire related businesses of $4 million. Negatively impacting operating income were higher raw material costs of approximately $40 million, higher conversion costs of approximately $18 million primarily related to production adjustments in certain markets to reduce inventory levels. Higher SAG costs also negatively impacted operating income by $15 million, primarily due to increased selling activity in emerging markets.

Operating income did not include net rationalization charges totaling $9 million in 2005 and $4 million in 2004. In addition, operating income did not include losses on asset sales of $1 million in 2005.

2004 Compared to 2003

Eastern Europe, Middle East and Africa Tire unit sales in 2004 increased 1.0 million units or 5.2% from 2003. Replacement unit sales in 2004 increased 0.6 million units or 4.0% from 2003 due primarily to growth in emerging markets. OE volume in 2004 increased 0.4 million units or 10.7% from 2003 due primarily to growth in the automotive industry in Turkey and South Africa.

Net sales in 2004 increased $206 million or 19% from 2003. Net sales in 2004 increased from 2003 due primarily to a benefit of approximately $102 million from currency translation. In addition, net sales rose by approximately $97 million on improved price and mix. Higher overall volume, mainly due to growth in emerging markets and improved economic conditions, increased net sales by $41 million. Negative results in our South African retail business adversely impacted net sales by approximately $32 million.

Operating income in 2004 increased $47 million or 32% from 2003. Operating income in 2004 rose from 2003 due primarily to a benefit of approximately $62 million resulting from price increases and a shift in mix

toward high performance tires. Operating income increased by approximately $16 million on higher volume, and by approximately $11 million from the favorable effect of currency translation. Operating income was adversely impacted by higher raw material and conversion costs totaling approximately $28 million. In addition, SAG expense was approximately $16 million higher resulting primarily from increased selling activity in growing and emerging markets.

Operating income did not include net rationalization charges totaling $4 million in 2004.

Latin American Tire

	Year Ended December 31,		
(In millions)	2005	2004	2003
Tire Units	20.4	19.6	18.7
Net Sales	$ 1,466	$ 1,245	$ 1,041
Operating Income	295	251	149
Operating Margin	20.1%	20.2%	14.3%

2005 Compared to 2004

Latin American Tire unit sales in 2005 increased 0.8 million units or 4.5% compared to 2004 primarily due to an increase in OE volume of 0.8 million units or 18.9%. OE volume increased as a result of strong growth in Latin American vehicle exports to Europe, Africa and North America. Replacement unit sales remained relatively flat, in line with a relatively flat replacement market in Latin America.

Net sales in 2005 increased $221 million, or 18% compared to 2004. Net sales increased in 2005 due to the favorable impact of currency translation, mainly in Brazil, of approximately $117 million, favorable price and product mix of approximately $61 million, and increased volume of approximately $54 million. These increases were partially offset by a reduction in sales of other tire related businesses of $15 million.

Operating income in 2005 increased $44 million, or 18% compared to 2004. Operating income was favorably impacted by approximately $87 million primarily due to improved price, approximately $66 million from the favorable impact of currency translation, and $16 million due to increased volumes. Increased raw material costs of approximately $93 million, higher conversion costs and SAG expenses of approximately $21 million and $8 million, respectively, due primarily to higher compensation costs, negatively impacted operating income as compared to 2004. The reduction in sales of other tire related businesses reduced operating income by approximately $7 million.

Operating income did not include net rationalization credits totaling $2 million in 2004. In addition, operating income did not include gains on asset sales of $1 million in 2005.

Latin American Tire s results are highly dependent upon the Brazilian market, which accounted for 44% of Latin American Tire s net sales in 2005. Accordingly, results of operations in Brazil will have a significant impact on Latin American Tire s future performance. Moreover, given Latin American Tire s significant contribution to our operating income, significant fluctuations in their sales, operating income or operating margins may have disproportionate impact on our consolidated results of operations.

2004 Compared to 2003

Latin American Tire unit sales in 2004 increased 0.9 million units or 5.0% from 2003. Replacement unit sales in 2004 increased 0.8 million units or 5.3% from 2003 due primarily to improved commercial and consumer demand. OE volume in 2004 increased 0.1 million units or 3.9% from 2003 reflecting improved commercial volume.

Net sales in 2004 increased $204 million or 20% from 2003. Net sales in 2004 increased from 2003 due primarily to a benefit of approximately $134 million from price increases and improved product mix in the replacement market. Net sales rose by approximately $60 million on higher volume and approximately $7 million from currency translation.

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Operating income in 2004 increased $102 million or 68% from 2003. Operating income in 2004 increased from 2003 due primarily to a benefit of approximately $126 million from improved price and product mix in the replacement market. Operating income benefited by approximately $13 million from higher volume and $5 million from savings from rationalization programs. Operating income was adversely impacted by higher raw material and conversion costs totaling approximately $41 million and approximately $2 million from currency translation. In addition, SAG expense rose by approximately $11 million, due primarily to increased wages and benefits and advertising expenses.

Operating income did not include net rationalization charges (credits) totaling $(2) million in 2004 and $10 million in 2003. In addition, operating income did not include gains on asset sales of $2 million in 2003.

Asia Pacific Tire

	Year Ended December 31,		
(In millions)	**2005**	**2004**	**2003**
Tire Units	20.1	19.5	13.4
Net Sales	$ 1,423	$ 1,312	$ 582
Operating Income	84	60	49
Operating Margin	5.9%	4.6%	8.4%

2005 Compared to 2004

Asia Pacific Tire unit sales in 2005 increased 0.6 million units or 2.5% compared to 2004. OE volume increased 1.2 million units or 20.9% mainly due to improvements in the Chinese OE market. Replacement units decreased 0.6 million units or 4.0% driven by increased competition with low cost imports.

Net sales in 2005 increased $111 million or 8% from 2004 due to favorable price and product mix of approximately $49 million, driven by price increases to offset higher raw material costs, and to favorable price in our off-the-road business in response to strong market demand. Also favorably impacting sales was currency translation of approximately $26 million and volume of approximately $31 million.

Operating income in 2005 increased $24 million or 40% from 2004 due primarily to improved price and product mix of approximately $60 million, driven by factors described above, non-recurring FIN 46 related charges of approximately $7 million in 2004, and lower research and development costs of $5 million. Also positively impacting income for the period was increased volume of approximately $6 million and a $4 million increase in other tire related businesses. These were offset in part by raw material cost increases of $50 million and higher SAG costs of $8 million due primarily to development of our branded retail and global sourcing infrastructure in China.

Operating income did not include net rationalization credits totaling $2 million in 2005.

See Note to the Consolidated Financial Statements No. 21, Subsequent Events, included herein, for a discussion of the acquisition of the remaining interest in SPT in January 2006.

2004 Compared to 2003

Asia Pacific Tire unit sales in 2004 increased 6.1 million units or 45.5% from 2003. Replacement unit sales in 2004 increased 5.4 million units or 60.0% from 2003. OE volume in 2004 increased 0.7 million units or 15.6% from 2003. Unit sales in 2004 increased by 5.5 million replacement units and 0.8 million OE units due to the consolidation of SPT, as discussed below. Excluding the impact of SPT, replacement unit volume increased slightly, and OE volume decreased due primarily to lower consumer volume.

Effective January 1, 2004, Asia Pacific Tire includes the operations of South Pacific Tyres, an Australian Partnership, and South Pacific Tyres N.Z. Limited, a New Zealand company (together, SPT), joint ventures 50% owned by Goodyear and 50% owned by Ansell Ltd. SPT sells Goodyear brand, Dunlop brand and other house and private brand tires through its chain of retail stores, commercial tire centers and independent dealers.

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Net sales in 2004 increased $730 million or 125% from 2003. Net sales in 2004 increased from 2003 due primarily to the consolidation of SPT, which benefited 2004 sales by $707 million. Net sales also rose by approximately $32 million due to improved price and product mix, but were adversely impacted by lower volume, excluding SPT, of $18 million.

Operating income in 2004 increased $11 million or 22% from 2003. Operating income in 2004 increased from 2003 due primarily to a benefit of approximately $25 million from price increases and improved product mix, and a reduction in conversion costs of approximately $4 million. Operating income was adversely impacted by higher raw material costs totaling approximately $22 million and approximately $3 million from lower volume. In addition, SAG expenses rose by approximately $6 million. The consolidation of SPT increased Asia Pacific Tire operating income by approximately $12 million in 2004; however, it reduced operating margin to 4.6% in 2004 from 8.4% in 2003.

Operating income did not include gains on asset sales of $2 million in 2003.

Engineered Products

	Year Ended December 31,		
(In millions)	2005	2004	2003
Net Sales	$ 1,630	$ 1,472	$ 1,205
Operating Income	103	114	47
Operating Margin	6.3%	7.7%	3.9%

2005 Compared to 2004

Engineered Products sales increased $158 million, or 11% in 2005 compared to 2004 levels due to improved price and product mix of approximately $65 million, increased volume of approximately $59 million, and favorable currency translation of approximately $35 million. The growth in net sales was driven by an increase in Industrial sales of approximately $144 million compared to 2004, primarily due to strong industry demand from petrochemical and mining customers. Replacement product sales increased by approximately $16 million compared to 2004 primarily due to increased market penetration. As anticipated, sales of Military products declined by approximately $13 million compared to 2004.

Operating income in 2005 decreased $11 million, or 10% compared to 2004 due primarily to increased conversion costs of approximately $33 million, related to the decline in our military business and OE production shifts to Mexico. Also negatively impacting operating income were increased raw material costs of approximately $30 million, higher SAG expenses of approximately $13 million due primarily to increased compensation, consulting expense, and bad debt expense and higher freight costs of approximately $11 million as a result of higher fuel costs. Partially offsetting these higher raw material and conversion costs were price and product mix improvements of approximately $44 million and increased volume of approximately $33 million.

Operating income did not include net rationalization charges totaling $4 million in 2005 and $23 million in 2004. In addition, operating income did not include gains on asset sales of $3 million in 2004.

2004 Compared to 2003

Engineered Products sales increased $267 million or 22% in 2004 from 2003 due to improved volume of approximately $194 million and improved price and product mix of approximately $37 million. This growth in revenue was led by strong sales in Military and Industrial products. Net sales also rose by approximately $35 million due to currency translation.

Operating income in 2004 increased $67 million or 143% from 2003. Increased Military and Industrial volume contributed approximately $75 million to the improved profitability. Operating income also reflected savings from rationalization programs of approximately $24 million. SAG was approximately $18 million higher and conversion costs rose approximately $10 million compared to 2003. Operating income in 2003 was

adversely impacted by charges totaling approximately $19 million related to account reconciliation adjustments in the restatement reported in our 2003 Form 10-K.

Operating income did not include net rationalization charges totaling $23 million in 2004 and $29 million in 2003. In addition, operating income did not include (gains) losses on asset sales of $(3) million in 2004 and $6 million in 2003.

Liquidity and Capital Resources

At December 31, 2005, we had $2,178 million in cash and cash equivalents as well as $1,677 million of unused availability under our various credit agreements, compared to $1,968 million and $1,116 million, respectively, at December 31, 2004. Cash and cash equivalents do not include restricted cash. Restricted cash primarily consists of Goodyear contributions made related to the settlement of the Entran II litigation and proceeds received pursuant to insurance settlements. In addition, we will, from time to time, maintain balances on deposit at various financial institutions as collateral for borrowings incurred by various subsidiaries, as well as cash deposited in support of trade agreements and performance bonds. At December 31, 2005, cash balances totaling $231 million were subject to such restrictions, compared to $152 million at December 31, 2004. The increase was primarily due to the receipt of insurance settlements subject to restrictions.

Our ability to service our debt depends in part on the results of operations of our subsidiaries and upon the ability of our subsidiaries to make distributions of cash to various other entities in our consolidated group, whether in the form of dividends, loans or otherwise. In recent years, our foreign subsidiaries have been a significant source of cash flow. In certain countries where we operate, transfers of funds into or out of such countries by way of dividends, loans or advances are generally or periodically subject to various restrictive governmental regulations. In addition, certain of our credit agreements and other debt instruments restrict the ability of foreign subsidiaries to make distributions of cash. At December 31, 2005, approximately $236 million of net assets were subject to such restrictions, compared to approximately $221 million at December 31, 2004.

Operating Activities

Cash flows from operations for 2005 of $885 million increased $100 million compared to $785 million in 2004. Cash flows from operations in 2004 of $785 million increased $1,054 million compared to cash used in operations of $269 million in 2003. Improvements in operating cash flows are primarily attributable to improved operating results. Net income increased by $113 million as compared to 2004 and 2004 net income increased by $922 million as compared to 2003. In 2005 and 2004 we received proceeds from insurance settlements of $228 million and $175 million, respectively, which also contributed to the improvement in operating cash flows. Partially offsetting these improvements were increases in pension contributions of $261 million in 2005 and $149 million in 2004. Cash flows from operating activities in 2004 and 2003 included net outflows of $118 million and $840 million, respectively, due to the termination of our accounts receivable securitization program. In 2004, we terminated certain of our off-balance sheet account receivable securitization programs in Europe and in 2003 we terminated our domestic accounts receivable securitization program.

Investing Activities

Net cash used in investing activities was $440 million during 2005, compared to $651 million in 2004 and $290 million in 2003. Capital expenditures were $634 million, $529 million and $405 million in 2005, 2004 and 2003, respectively. Capital expenditures in 2005 of approximately $128 million were used on projects to increase capacity, approximately $173 million were used to improve productivity and quality and approximately $333 million were used for tire molds and various other projects. Major investments in fiscal year 2005 focused on growth in the Latin American Tire and Asia Pacific Tire Segments with several manufacturing improvements in the North American Tire Segment. Capital expenditures are expected to be approximately $720 million in 2006. This amount includes expenditures for capitalized software of approximately $55 million, which are included in capital expenditures in our Consolidated Statements of Cash Flows; however, are

not treated as capital expenditures under our credit agreements. We expect to spend $65 million for projects to increase capacity, $250 million for productivity and quality improvements, and $350 million for tire molds, maintenance and other activities. During 2005, we revised the classification for certain items, including changes in restricted cash, in our Consolidated Statements of Cash Flows. Restricted cash is now presented as an investing activity. The revised classifications have also been reflected in the comparative prior year amounts for purposes of consistency.

At December 31, 2005, we had binding commitments for raw materials and investments in land, buildings and equipment of $1,288 million, and off-balance-sheet financial guarantees written and other commitments totaling $11 million.

Cash provided by asset dispositions in 2005 was $257 million, primarily from asset sales in the North American Tire Segment, including net proceeds from the sales of our North American Farm Tire business of $100 million, our Sumatran rubber plantation, of approximately $70 million and our Wingtack adhesive resin business of $55 million. Cash used for asset acquisitions was $62 million in 2004. In June 2004, we exercised our call option and a subsidiary in Luxembourg purchased the remaining 20% of outstanding shares that it did not already own of Sava Tires d.o.o. (Sava Tires), a joint venture tire manufacturing company in Kranj, Slovenia, for $52 million. On July 13, 2004, we purchased the remaining 50% ownership interest that we did not already own of Däckia, a tire retail group in Sweden, for $10 million. During 2003, cash flows from asset sales of $104 million included net proceeds of $83 million for the sale of 20.8 million shares of SRI. Cash used for asset acquisitions in 2003 included the purchase of Arkansas Best Corporation s 19% ownership interest in Wingfoot Commercial Tire Systems, LLC (Wingfoot) for $71 million. Wingfoot was a joint venture company formed by Goodyear and Arkansas Best Corporation to sell and service commercial truck tires, provide retread services and conduct related business.

Financing Activities

Net cash provided by (used in) financing activities was $(175) million in 2005, compared to $250 in 2004 and $1,121 million in 2003. Consolidated debt and our ratio of debt to debt and equity follows:

	December 31,		
	2005	**2004**	**2003**
(In millions)			
Consolidated debt	$ 5,423	$ 5,680	$ 5,087
Debt to debt and equity	98.7%	98.7%	100.7%

Consolidated debt decreased in 2005 compared to 2004 due primarily to a net repayment of debt of $63 million in conjunction with our April 8, 2005 refinancing, the issuance of $400 million in senior notes due in 2015 and the repayment of our $6^{3}/8$% Euro Notes due in 2005. Consolidated debt increased in 2004 from 2003 due primarily to the net issuance of debt of $328 million in connection with certain financing actions in 2004 including the completion of a $350 million convertible senior notes offering, the completion of the pan-European accounts receivable securitization facility and the consolidation of VIEs as defined by FIN 46. A net issuance of debt of $1,220 million in 2003 was due primarily to the April 1, 2003 restructuring and refinancing of our credit facilities, including the termination of our domestic off-balance sheet accounts receivable securitization program.

Credit Sources

In aggregate, we had committed and uncommitted credit facilities of $7,527 million available at December 31, 2005, of which $1,677 million were unused, compared to $7,295 million available at December 31, 2004, of which $1,116 million were unused.

$650 Million Senior Secured Notes

On March 12, 2004, we completed a private offering of $650 million of senior secured notes, consisting of $450 million of 11% senior secured notes due 2011 and $200 million of floating rate notes due 2011, which accrue interest at LIBOR plus 8%. The proceeds of the notes were used to prepay the remaining outstanding

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amount under the then-existing U.S. term loan facility, permanently reduce commitments under the then-existing revolving credit facility by $70 million, and for general corporate purposes. The notes are guaranteed by the same subsidiaries that guarantee our $1.5 billion first lien credit facility. The notes are secured by perfected third-priority liens on the same collateral securing those facilities.

We have the right to redeem the fixed rate notes in whole or in part from time to time on and after March 1, 2008. The redemption price, plus accrued and unpaid interest to the redemption date, would be 105.5%, 102.75%, and 100.0% on and after March 1, 2008, 2009 and 2010, respectively. We may also redeem the fixed rate notes prior to March 1, 2008 at a redemption price equal to 100% of the principal amount plus a make-whole premium. We have the right to redeem the floating rate notes in whole or in part from time to time on and after March 1, 2008. The redemption price, plus accrued and unpaid interest to the redemption date, would be 104.0%, 102.0%, and 100.0% on and after March 1, 2008, 2009 and 2010, respectively. In addition, prior to March 1, 2007, we have the right to redeem up to 35% of the fixed and floating rate notes with net cash proceeds from one or more public equity offerings. The redemption price would be 111% for the fixed rate notes and 100% plus the then-applicable floating rate for the floating rate notes, plus accrued and unpaid interest to the redemption date.

The Indenture for the senior secured notes contains restrictions on our operations, including limitations on:

- incurring additional indebtedness or liens,
- paying dividends, making distributions and stock repurchases,
- making investments,
- selling assets, and
- merging and consolidating.

In the event that the senior secured notes have a rating equal to or greater than Baa3 from Moody s and BBB-from Standard and Poor s, a number of those restrictions will not apply, for so long as those credit ratings are maintained.

$350 Million Convertible Senior Note Offering

On July 2, 2004, we completed an offering of $350 million aggregate principal amount of 4% Convertible Senior Notes due June 15, 2034. The notes are convertible into shares of our common stock initially at a conversion rate of 83.07 shares of common stock per $1,000 principal amount of notes, which is equal to an initial conversion price of $12.04 per share. The proceeds from the notes were used to repay temporarily a revolving credit facility and for working capital purposes.

$400 Million Senior Notes Offering

On June 23, 2005, we completed an offering of $400 million aggregate principal amount of 9% Senior Notes due 2015 in a transaction under Rule 144A and Regulation S of the Securities Act of 1933. The senior notes are guaranteed by our U.S. and Canadian subsidiaries that also guarantee our obligations under our senior secured credit facilities. The guarantees are unsecured. The proceeds were used to repay $200 million in borrowings under our U.S. first lien revolving credit facility, and to replace $190 million of the cash, that we used to pay the $488 million principal amount of our 6 $^{3}/8$% Euro Notes due 2005 at maturity on June 6, 2005. The remainder of the proceeds was used for general corporate purposes. In conjunction with the debt issuance, we paid fees of approximately $10 million, which will be amortized over the term of the senior notes.

The Indenture governing the senior notes limits our ability and the ability of certain of our subsidiaries to (i) incur additional debt or issue redeemable preferred stock, (ii) pay dividends, or make certain other restricted payments or investments, (iii) incur liens, (iv) sell assets, (v) incur restrictions on the ability of our subsidiaries to pay dividends to us, (vi) enter into affiliate transactions, (vii) engage in sale and leaseback transactions, and (viii) consolidate, merge, sell or otherwise dispose of all or substantially all of our assets.

These covenants are subject to significant exceptions and qualifications. For example, if the senior notes are assigned an investment grade rating by Moody s and S&P and no default has occurred or is continuing, certain covenants will be suspended.

April 8, 2005 Refinancing

On April 8, 2005 we completed a refinancing in which we replaced approximately $3.28 billion of credit facilities with new facilities aggregating $3.65 billion. The new facilities consist of:

a $1.5 billion first lien credit facility due April 30, 2010 (consisting of a $1.0 billion revolving facility and a $500 million deposit-funded facility);

a $1.2 billion second lien term loan facility due April 30, 2010;

the Euro equivalent of approximately $650 million in credit facilities for Goodyear Dunlop Tires Europe B.V. (GDTE) due April 30, 2010 (consisting of approximately $450 million in revolving facilities and approximately $200 million in term loan facilities); and

a $300 million third lien term loan facility due March 1, 2011.

In connection with the refinancing, we paid down and retired the following facilities:

our $1.3 billion asset-based credit facility, due March 2006 (the $800 million term loan portion of this facility was fully drawn prior to the refinancing);

our $650 million asset-based term loan facility, due March 2006 (this facility was fully drawn prior to the refinancing);

our $680 million deposit-funded credit facility due September 2007 (there were $492 million of letters of credit outstanding under this facility prior to the refinancing); and

our $650 million senior secured European facilities due April 2005 (the $400 million term loan portion of this facility was fully drawn prior to the refinancing).

In conjunction with the refinancing, we paid fees of approximately $57 million. In addition, we paid approximately $20 million of termination fees associated with the replaced facilities. We recognized approximately $47 million of expense in the second quarter to write-off fees associated with the refinancing, including approximately $30 million of previously unamortized fees related to the replaced facilities. The remaining fees are being amortized over the term of the new facilities. The new facilities have customary representations and warranties including, as a condition to borrowing, material adverse change representations in our financial condition since December 31, 2004.

$1.5 Billion First Lien Credit Facility

The $1.5 billion first lien credit facility consists of a $1.0 billion revolving facility and a $500 million deposit-funded facility. Our obligations under these facilities are guaranteed by most of our wholly-owned U.S. subsidiaries and by our wholly-owned Canadian subsidiary, Goodyear Canada Inc. Our obligations under this facility and our subsidiaries obligations under the related guarantees are secured by first priority security interests in a variety of collateral.

With respect to the deposit-funded facility, the lenders deposited the entire $500 million of the facility in an account held by the administrative agent, and those funds are used to support letters of credit or borrowings on a revolving basis, in each case subject to customary conditions. The full amount of the deposit-funded facility is available for the issuance of letters of credit or for revolving loans. As of December 31, 2005, there were $499 million of letters of credit issued under the deposit-funded facility and no borrowings under the revolving facility.

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$1.2 Billion Second Lien Term Loan Facility

Our obligations under this facility are guaranteed by most of our wholly-owned U.S. subsidiaries and by our wholly-owned Canadian subsidiary, Goodyear Canada Inc. and are secured by second priority security interests in the same collateral securing the $1.5 billion first lien credit facility. As of December 31, 2005 this facility was fully drawn.

$300 Million Third Lien Secured Term Loan Facility

Our obligations under this facility are guaranteed by most of our wholly-owned U.S. subsidiaries and by our wholly-owned Canadian subsidiary, Goodyear Canada Inc. and are secured by third priority security interests in the same collateral securing the $1.5 billion first lien credit facility (however, the facility is not secured by any of the manufacturing facilities that secure the first and second lien facilities). As of December 31, 2005, this facility was fully drawn.

Euro Equivalent of $650 Million (505 Million) Senior Secured European Credit Facilities

These facilities consist of (i) a 195 million European revolving credit facility, (ii) an additional 155 million German revolving credit facility, and (iii) 155 million of German term loan facilities. We secure the U.S. facilities described above and provide unsecured guarantees to support these facilities. GDTE and certain of its subsidiaries in the United Kingdom, Luxembourg, France and Germany also provide guarantees. GDTE s obligations under the facilities and the obligations of subsidiary guarantors under the related guarantees are secured by a variety of collateral. As of December 31, 2005, there were $4 million of letters of credit issued under the European revolving credit facility, $183 million was drawn under the German term loan facilities and there were no borrowings under the German or European revolving credit facilities.

For a description of the collateral securing the above facilities as well as the covenants applicable to them, please refer to the Note to the Consolidated Financial Statements No. 10, Financing Arrangements and Derivative Financial Instruments, included herein.

Consolidated EBITDA (per Credit Agreements)

Under our primary credit facilities we are not permitted to fall below a ratio of 2.00 to 1.00 of Consolidated EBITDA to Consolidated Interest Expense (as such terms are defined in each of the relevant credit facilities) for any period of four consecutive fiscal quarters. In addition, our ratio of Consolidated Net Secured Indebtedness to Consolidated EBITDA (as such terms are defined in each of the relevant credit facilities) is not permitted to be greater than 3.50 to 1.00 at any time.

Consolidated EBITDA is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure under our debt covenants. It should not be construed as an alternative to either (i) income from operations or (ii) cash flows from operating activities. Our failure to comply with the financial covenants in our credit facilities could have a material adverse effect on our liquidity and operations. Accordingly, we believe that the presentation of Consolidated EBITDA will provide investors with information needed to assess our ability to continue to comply with these covenants.

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The following table presents the calculation of EBITDA and Consolidated EBITDA for the periods indicated. Other companies may calculate similarly titled measures differently than we do. Certain line items are presented as defined in the primary credit facilities and do not reflect amounts as presented in the Consolidated Statements of Operations.

	Year Ended December 31,		
(In millions)	2005	2004	2003
Net Income (Loss)	$ 228	$ 115	$ (807)
Consolidated Interest Expense	411	369	296
U.S. and Foreign Taxes on Income	250	208	117
Depreciation and Amortization Expense	630	629	692
Cumulative Effect of Accounting Change	11		
EBITDA	1,530	1,321	298
Credit Agreement Adjustments:			
Other (Income) and Expense	70	1	343
Minority Interest in Net Income (Loss) of Subsidiaries	95	58	33
Consolidated Interest Expense Adjustment	5	11	18
Non-cash Non-recurring Items			55
Rationalizations	11	56	291
Less Excess Cash Rationalization Charges			(13)(1)
Consolidated EBITDA	$ 1,711	$ 1,447	$ 1,025

(1) Excess Cash Rationalization Charges is defined in our credit facilities, for the year ended December 31, 2003, only contemplates cash expenditures with respect to rationalization charges recorded on the Consolidated Statements of Operations after April 1, 2003.

Other Foreign Credit Facilities

At December 31, 2005, we had short-term committed and uncommitted bank credit arrangements totaling $415 million, of which $182 million were unused, compared to $413 million and $192 million at December 31, 2004. The continued availability of these arrangements is at the discretion of the relevant lender, and a portion of these arrangements may be terminated at any time.

International Accounts Receivable Securitization Facilities (On-Balance-Sheet)

On December 10, 2004, GDTE and certain of its subsidiaries entered into a new five-year pan-European accounts receivable securitization facility. The facility provides 275 million of funding and is subject to customary annual renewal of back-up liquidity lines.

As of December 31, 2005, the amount available and fully utilized under this program was $324 million compared to $225 million as of December 31, 2004.

In addition to the pan-European accounts receivable securitization facility discussed above, SPT and other subsidiaries in Australia have accounts receivable programs totaling $67 million and $63 million at December 31, 2005 and December 31, 2004, respectively.

International Accounts Receivable Securitization Facilities (Off-Balance-Sheet)

Various international subsidiaries sold certain of their trade receivables under off-balance sheet programs during 2005 and 2004. The receivable financing programs of these international subsidiaries did not utilize an SPE. At

December 31, 2005 and 2004, the value in U.S. dollars available to and utilized by these international subsidiaries was $3 million and $5 million, respectively.

Registration Obligations

We are a party to three registration rights agreements in connection with the following transactions: (i) the March 2004 issuance of $650 million of senior secured notes due 2011 (consisting of $450 million of 11% senior secured notes and $200 million of senior secured floating rate notes), (ii) the July 2004 issuance of $350 million of 4% convertible senior notes due 2034, and (iii) the June 2005 issuance of $400 million of 9% senior notes due 2015.

The registration rights agreement for the convertible notes required us to pay additional interest to investors since we did not file a registration statement to register the convertible notes by November 7, 2004. Additional interest was paid to investors at a rate of 0.25% per year for the first 90 days following November 7, 2004 and 0.50% per year thereafter, until December 13, 2005, when a registration statement on Form S-1 registering the convertible notes was declared effective. Following the effectiveness of the registration statement, the additional interest ceased to accrue on the convertible notes.

On December 22, 2005, we completed an exchange offer related to the $450 million of 11% senior secured notes due in 2011 and $200 million of senior secured floating rate notes due in 2011. The registration rights agreement with respect to these notes required us to pay additional interest to investors since a registered exchange offer was not completed by December 7, 2004. The additional interest payable to investors increased in increments and reached a maximum of 2% per year immediately prior to the completion of the exchange offer. Following the completion of the exchange offer, the additional interest of 2% on the notes ceased to accrue and, pursuant to the terms of the registration rights agreement, additional interest of 0.25% per year began to accrue on the notes and will continue to accrue until payment in full of the principal amount of the notes.

On January 12, 2006, we completed an exchange offer related to the $400 million of 9% senior notes due in 2015.

Credit Ratings

Our credit ratings as of the date of this report are presented below:

	S&P	Moody s
$1.5 Billion First Lien Credit Facility	BB	Ba3
$1.2 Billion Second Lien Term Loan Facility	B+	B2
$300 Million Third Lien Secured Term Loan Facility	B-	B3
European Facilities	B+	B1
$650 Million Senior Secured Notes due 2011	B-	B3
Corporate Rating (implied)	B+	B1
Senior Unsecured Debt	B-	
Outlook	Stable	Stable

Although we do not request ratings from Fitch, the rating agency rates our secured debt facilities (ranging from B+ to B- depending on facility) and our unsecured debt (CCC+).

As a result of these ratings and other related events, we believe that our access to capital markets may be limited. Unless our debt credit ratings and operating performance improve, our access to the credit markets in the future may be limited. Moreover, a reduction in our credit ratings would further increase the cost of any financing initiatives we may pursue.

A rating reflects only the view of a rating agency, and is not a recommendation to buy, sell or hold securities. Any rating can be revised upward or downward at any time by a rating agency if such rating agency decides that circumstances warrant such a change.

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Potential Future Financings

In addition to our previous financing activities, we plan to undertake additional financing actions in the capital markets in order to ensure that our future liquidity requirements are addressed. These actions may include the issuance of additional equity.

Because of our debt ratings, operating performance over the past few years and other factors, access to the capital markets cannot be assured. Our ongoing ability to access the capital markets is also dependent on the degree of success we have implementing our North American Tire turnaround strategy. Successful implementation of the turnaround strategy is also crucial to ensuring that we have sufficient cash flow from operations to meet our obligations. While we have made progress in implementing the turnaround strategy, there is no assurance that our progress will continue, or that we will be able to sustain any future progress to a degree sufficient to maintain access to capital markets and meet liquidity requirements. As a result, failure to complete the turnaround strategy successfully could have a material adverse effect on our financial position, results of operations and liquidity.

Future liquidity requirements also may make it necessary for us to incur additional debt. However, a substantial portion of our assets is already subject to liens securing our indebtedness. As a result, we are limited in our ability to pledge our remaining assets as security for additional secured indebtedness. In addition, no assurance can be given as to our ability to raise additional unsecured debt.

Dividends

On February 4, 2003, we announced that we eliminated our quarterly cash dividend. The dividend reduction was approved by the Board of Directors in order to conserve cash. Under our primary credit facilities we are permitted to pay dividends on our common stock of $10 million or less in any fiscal year. This limit increases to $50 million in any fiscal year if Moody s senior (implied) rating and Standard & Poor s (S&P) corporate rating improve to Ba2 or better and BB or better, respectively.

Asset Dispositions

In 2005, we completed the sale of our natural rubber plantation in Indonesia at a sales price of approximately $70 million. We also completed the sale of our Wingtack adhesive resins business to Sartomer Company, Inc. in 2005. We received approximately $55 million in cash proceeds and retained approximately $10 million in working capital in connection with the Wingtack sale. In connection with the transaction, we recorded a gain of approximately $24 million on the sale. We may also receive additional consideration over the next three years ($5 million per year, $15 million aggregate) based on future operating performance of the Wingtack business. In 2005 we also completed the sale of assets of our North American farm tire business to Titan International for approximately $100 million. In connection with the transaction, we recorded a loss of approximately $73 million in the fourth quarter of 2005, primarily related to pension and retiree medical costs. Also, we have announced that we are exploring the possible sale of our Engineered Products business. Engineered Products manufactures and markets engineered rubber products for industrial, military, consumer and transportation OE end-users. We continue to evaluate our portfolio of businesses and, where appropriate, may pursue additional dispositions of non-core assets. Refer to the Note to the Consolidated Financial Statements No. 20, Asset Dispositions, included herein.

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Commitments and Contingent Liabilities

Contractual Obligations

The following table presents our contractual obligations and commitments to make future payments as of December 31, 2005:

	Payment Due by Period as of December 31, 2005						
	Total	1st Year	2nd Year	3rd Year	4th Year	5th Year	After 5 Years
(In millions)							
Long Term Debt(1)	$ 5,347	$ 674	$ 329	$ 102	$ 327	$ 1,385	$ 2,530
Capital Lease Obligations(2)	107	13	12	12	12	12	46
Interest Payments(3)	2,387	389	344	332	330	249	743
Operating Leases(4)	1,471	315	254	193	145	109	455
Pension Benefits(5)	838	838	(5)	(5)	(5)	(5)	(5)
Other Post Retirement Benefits(6)	2,204	254	250	245	236	227	992
Workers Compensation(7)	334	86	43	32	23	17	133
Binding Commitments(8)	1,288	1,020	51	32	30	26	129
	$ 13,976	$ 3,589	$ 1,283	$ 948	$ 1,103	$ 2,025	$ 5,028

(1) Long term debt payments include notes payable and reflect long term debt maturities as of December 31, 2005.

(2) The present value of capital lease obligations is $76 million.

(3) These amounts represent future interest payments related to our existing debt obligations based on fixed and variable interest rates specified in the associated debt agreements. Payments related to variable debt are based on the six-month LIBOR rate at December 31, 2005 plus the specified margin in the associated debt agreements for each period presented. The amounts provided relate only to existing debt obligations and do not assume the refinancing or replacement of such debt.

(4) Operating lease obligations have not been reduced by minimum sublease rentals of $51 million, $42 million, $33 million, $24 million, $15 million, and $20 million in each of the periods above, respectively, for a total of $185 million. Payments, net of minimum sublease rentals, total $1,286 million. The present value of the net operating lease payments is $893 million. The operating leases relate to, among other things, computers and office equipment, real estate and miscellaneous other assets. No asset is leased from any related party.

(5) The obligation related to pension benefits is actuarially determined and is reflective of obligations as of December 31, 2005. Although subject to change, the amount set forth in the table represents the midpoint of our estimated minimum funding requirements in 2006 for domestic defined benefit pension plans under current ERISA law, and the midpoint of our expected contributions to our funded non-U.S. pension plans in 2006. The expected contributions are based upon a number of assumptions, including, an ERISA liability

interest rate of 5.08% for 2006.

At the end of 2005, the interest relief rate measures used for pension funding calculations expired. Since new legislation has not yet been enacted, the interest rate has reverted to a 30-year U.S. Treasury bond basis beginning in 2006. Under this basis, we estimate that we will be required to contribute approximately $700 million to $750 million to our domestic pension plans in 2006, as reflected in the table above. If new legislation is enacted in 2006, we expect the interest rate used for 2006 will be based on a Corporate bond basis. Using an estimate of these rates would result in estimated U.S. contributions during 2006 in the range of $550 million to $600 million. We are not able to reasonably estimate our future required contributions beyond 2006 due to uncertainties

regarding significant assumptions involved in estimating future required contributions to our defined benefit pension plans, including:

- interest rate levels,
- the amount and timing of asset returns,
- what, if any, changes may occur in pending pension funding legislation, and
- how contributions in excess of the minimum requirements could impact the amounts and timing of future contributions.

Subject to the outcome of pending legislation, our domestic pension obligations are expected to peak in 2006. However, we anticipate being subject to significant required pension funding obligations in 2007 and beyond.

(6) The payments presented above are expected payments for the next 10 years. The payments for other postretirement benefits reflect the estimated benefit payments of the plans using the provisions currently in effect. Under the relevant summary plan descriptions or plan documents we have the right to modify or terminate the plans. The obligation related to other postretirement benefits is actuarially determined on an annual basis. The estimated payments have been reduced to reflect the provisions of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

(7) The payments for workers compensation obligations are based upon recent historical payment patterns on claims. The present value of anticipated claims payments for workers compensation is $250 million.

(8) Binding commitments are for our normal operations and are related primarily to obligations to acquire land, buildings and equipment. In addition, binding commitments includes obligations to purchase raw materials through short term supply contracts at fixed prices or at formula prices related to market prices or negotiated prices.

Additional other long-term liabilities include items such as income taxes, general and product liabilities, environmental liabilities and miscellaneous other long-term liabilities. These other liabilities are not contractual obligations by nature. We cannot, with any degree of reliability, determine the years in which these liabilities might ultimately be settled. Accordingly, these other long-term liabilities are not included in the above table.

In addition, the following contingent contractual obligations, the amounts of which cannot be estimated, are not included in the table above:

- The terms and conditions of our global alliance with Sumitomo as set forth in the Umbrella Agreement between Sumitomo and us provide for certain minority exit rights available to Sumitomo commencing in 2009. In addition, the occurrence of certain other events enumerated in the Umbrella Agreement, including certain bankruptcy events or changes in control of us, could trigger a right of Sumitomo to require us to purchase these interests immediately. Sumitomo s exit rights, in the unlikely event of exercise, could require us to make a substantial payment to acquire Sumitomo s interest in the alliance.
- Pursuant to certain long term agreements, we shall purchase minimum amounts of a raw material at an agreed upon base price that is subject to quarterly adjustments for changes in raw material costs, natural gas costs, and market price adjustments.

We do not engage in the trading of commodity contracts or any related derivative contracts. We generally purchase raw materials and energy through short-term, intermediate and long term supply contracts at fixed prices or at formula prices related to market prices or negotiated prices. We may, however, from time to time, enter into contracts to hedge our energy costs.

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Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has:

made guarantees,

retained or held a contingent interest in transferred assets,

undertaken an obligation under certain derivative instruments, or

undertaken any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development arrangements with the company.

We have also entered into certain arrangements under which we have provided guarantees, as follows:

	Amount of Commitment Expiration per Period						
(In millions)	**Total**	**1st Year**	**2nd Year**	**3rd Year**	**4th Year**	**5th Year**	**Thereafter**
Customer Financing Guarantees	$ 8	$ 3	$	$ 1	$ 2	$	$ 2
Affiliate Financing Guarantees	2			2			
Other Guarantees	1	1					
Off-Balance Sheet Arrangements	$ 11	$ 4	$	$ 3	$ 2	$	$ 2

For further information about guarantees, refer to the Note to the Consolidated Financial Statements No. 17, Commitments and Contingent Liabilities, included herein.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We continuously monitor our fixed and floating rate debt mix. Within defined limitations, we manage the mix using refinancing and unleveraged interest rate swaps. We will enter into fixed and floating interest rate swaps to alter our exposure to the impact of changing interest rates on consolidated results of operations and future cash outflows for interest. Fixed rate swaps are used to reduce our risk of increased interest costs during periods of rising interest rates, and are normally designated as cash flow hedges. Floating rate swaps are used to convert the fixed rates of long-term borrowings into short-term variable rates, and are normally designated as fair value hedges. Interest rate swap contracts are thus used to separate interest rate risk management from debt funding decisions. At December 31, 2005, the interest rates on 49% of our debt were fixed by either the nature of the obligation or through the interest rate swap contracts, compared to 50% at December 31, 2004. We also have from time to time entered into interest rate lock contracts to hedge the risk-free component of anticipated debt issuances. As a result of credit ratings actions and other related events, our access to these instruments may be limited.

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The following table presents information on interest rate swap contracts at December 31:

(Dollars in millions)	2005	2004
Fixed Rate Contracts:		
Notional principal amount	$	$ 15
Pay fixed rate		5.94%
Receive variable Australian Bank Bill Rate		5.43%
Average years to maturity		0.50
Fair value	$	$
Pro forma fair value		
Floating Rate Contracts:		
Notional principal amount	$ 200	$ 200
Pay variable LIBOR	6.27%	4.31%
Receive fixed rate	6.63%	6.63%
Average years to maturity	0.92	1.92
Fair value asset	$	$ 6
Pro forma fair value asset		5

The pro forma fair value assumes a 10% increase in variable market interest rates at December 31 of each year, and reflects the estimated fair value of contracts outstanding at that date under that assumption.

Weighted average interest rate swap contract information follows:

(Dollars in millions)	2005	2004	2003
Fixed Rate Contracts:			
Notional principal amount	$ 7	$ 96	$ 325
Pay fixed rate	5.94%	5.14%	5.00%
Receive variable LIBOR	5.66%	1.86%	1.24%
Floating Rate Contracts:			
Notional principal amount	$ 200	$ 200	$ 207
Pay variable LIBOR	4.92%	3.27%	3.03%
Receive fixed rate	6.63%	6.63%	6.63%

The following table presents information about long term fixed rate debt, including capital leases, at December 31:

(In millions)	2005	2004
Carrying amount liability	$ 2,847	$ 3,055
Fair value liability	3,119	3,388
Pro forma fair value liability	3,203	3,467

The pro forma information assumes a 100 basis point decrease in market interest rates at December 31 of each year, and reflects the estimated fair value of fixed rate debt outstanding at that date under that assumption. The sensitivity of our interest rate contracts and fixed rate debt to changes in interest rates was determined with a valuation model based upon net modified duration analysis. The model assumes a parallel shift in the yield curve. The precision of the model decreases as the assumed change in interest rates increases.

Foreign Currency Exchange Risk

We enter into foreign currency contracts in order to reduce the impact of changes in foreign exchange rates on consolidated results of operations and future foreign currency-denominated cash flows. These contracts reduce exposure to currency movements affecting existing foreign currency-denominated assets, liabilities, firm commitments and forecasted transactions resulting primarily from trade receivables and

payables, equipment acquisitions, intercompany loans and royalty agreements and forecasted purchases and sales. In addition, the principal and interest on our Swiss franc bonds due 2006 is hedged by currency swap agreements, as were 100 million of the 6 3/8% Euro Notes until they matured in June 2005.

Contracts hedging the Swiss franc bonds are designated as cash flow hedges, as were contracts hedging 100 million of the 6 3/8% Euro Notes until they matured in June 2005. Contracts hedging short-term trade receivables and payables normally have no hedging designation.

The following table presents foreign currency contract information at December 31:

(In millions)	2005	2004
Fair value asset	$40	$102
Pro forma decrease in fair value	(47)	(71)
Contract maturities	1/06-10/19	1/05-10/19

We were not a party to any foreign currency option contracts at December 31, 2005 or 2004.

The pro forma change in fair value assumes a 10% decrease in foreign exchange rates at December 31 of each year, and reflects the estimated change in the fair value of contracts outstanding at that date under that assumption. The sensitivity of our foreign currency positions to changes in exchange rates was determined using current market pricing models.

Fair values are recognized on the Consolidated Balance Sheets at December 31 as follows:

(In millions)	2005	2004
Asset (liability):		
Swiss franc swap current	$ 38	$
Swiss franc swap long term		60
Euro swaps current		46
Other current asset	3	4
Other long term assets	2	1
Other current liability	(1)	(6)
Other long term liability	(2)	(3)

For further information on interest rate contracts and foreign currency contracts, refer to the Note to the Consolidated Financial Statements No. 10, Financing Arrangements and Derivative Financial Instruments, included herein.

Business

We are one of the world s leading manufacturers of tires and rubber products, engaging in operations in most regions of the world. Our 2005 net sales were $19.7 billion and our net income for 2005 was $228 million. Together with our U.S. and international subsidiaries and joint ventures, we develop, manufacture, market and distribute tires for most applications. We also manufacture and market several lines of power transmission belts, hoses and other rubber products for the transportation industry and various industrial and chemical markets, and rubber-related chemicals for various applications. We are one of the world s largest operators of commercial truck service and tire retreading centers. In addition, we operate more than 1,800 tire and auto service center outlets where we offer our products for retail sale and provide automotive repair and other services. We manufacture our products in more than 100 facilities in 29 countries, and we have marketing operations in almost every country around the world. We employ approximately 80,000 associates worldwide.

General Segment Information

Our operating segments are North American Tire; European Union Tire; Eastern Europe, Middle East and Africa Tire (Eastern Europe Tire) (formerly known as Eastern Europe, Africa and Middle East Tire); Latin American Tire; Asia Pacific Tire (collectively, the Tire Segments); and Engineered Products.

Financial Information About Our Segments

Financial information related to our operating segments for the three year period ended December 31, 2005 appears in the Note to the Financial Statements No. 15, Business Segments, included herein.

General Information Regarding Tire Segments

Our principal business is the development, manufacture, distribution and sale of tires and related products and services worldwide. We manufacture and market numerous lines of rubber tires for:

- automobiles
- trucks
- buses
- aircraft
- motorcycles
- farm implements
- earthmoving equipment
- industrial equipment
- various other applications.