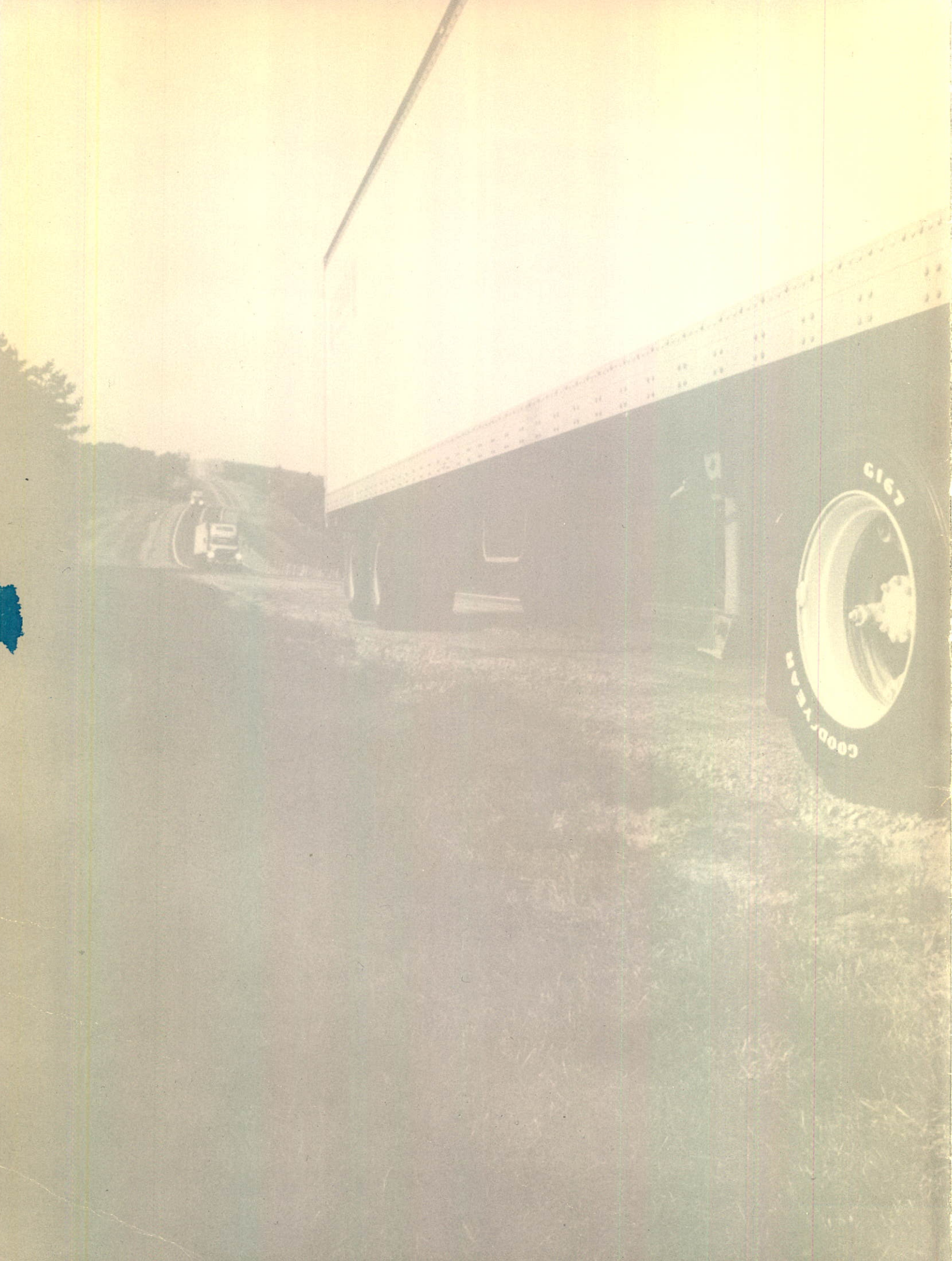


Goodyear Canada Inc.

1981 Annual Report







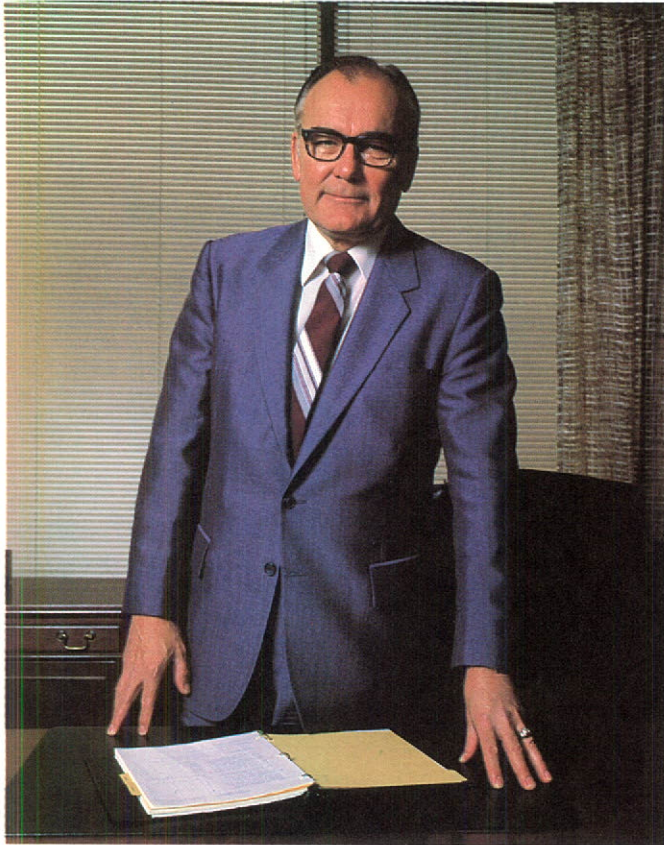
**GOODYEAR CANADA INC.
1981 ANNUAL REPORT**

CONTENTS

REPORT TO SHAREHOLDERS, PAGE 2
GOODYEAR IN CANADA, PAGE 4
TIRES, PAGE 6
GENERAL PRODUCTS, PAGE 9
FINANCIAL REVIEW, PAGE 12

COVER

Goodyear's new G167 radial
drive-wheel tire for trucks
was introduced in 1981.



REPORT TO THE SHAREHOLDERS

CONSOLIDATED NET SALES were \$542,211,000 compared with \$493,116,000 for 1980.

CONSOLIDATED NET INCOME was \$18,969,000 versus the \$14,827,000 earned in 1980. Earnings per share for the year were \$7.34 in 1981 compared with \$5.73 in the previous year.

FOURTH QUARTER SALES of \$128,745,000 represented an increase of .5 per cent or \$577,000 higher than the \$128,168,000 recorded in 1980. Earnings were \$3,351,000 compared with \$5,321,000 in the corresponding period last year, a decrease of \$1,970,000 or 37.0 per cent.

DIVIDENDS paid in 1981 were equivalent to \$1.00 per common share, unchanged from 1980. Dividends of \$2.00 per share were paid on the four per cent preferred shares.

TAXES AND DUTIES amounted to \$42,174,000 or \$16.39 per common share, as against the \$36,920,000 or \$14.35 per common share paid in the previous year.

TOTAL COMPENSATION to employees, including pension, hospitalization, group insurance and related benefits, was \$164,294,000 up 9.6 per cent from \$149,851,000 in 1980.

CAPITAL EXPENDITURES totalled \$14,938,000 in 1981 compared with \$7,962,000 in 1980.

DEPRECIATION charged against earnings in 1981 was \$11,527,000. Depreciation was \$10,711,000 in 1980.

EQUIPMENT AND RAW MATERIALS were purchased by Goodyear Canada during 1981 to the value of \$233,191,000.

NEW EXECUTIVES AND DIRECTORS

At a meeting of our Board on March 19, 1981, C.H. Johnson was elected President and appointed Chief Executive Officer. At a meeting of the Board on October 27, 1981, C.G. Thorpe was appointed Vice President of Manufacturers' Sales replacing C.M. Roberts who retired after 43 years with the company. At the same meeting, G.A. Church was appointed Vice President of Corporate Tire Sales.

OUTLOOK

For Goodyear Canada, 1981 was a year of relatively strong performance, despite difficult business conditions brought on by inflation, high interest rates, generally depressed economic conditions and the continuing downturn within the auto industry.

A key factor in this healthy performance has been Goodyear Canada's determination to reduce costs and improve operating efficiency.

Throughout the year, a range of profit improvement programs were implemented to soften the impact of adverse business conditions. The result was substantial reductions in manufacturing and administrative expenses, a further decrease in cost of sales and reduced interest expense; all of which resulted in an improved return on investment.

Looking ahead, all indicators point to another year of a very tough, uncertain business environment.

Goodyear Canada will continue to act on each and every opportunity to expand existing markets and to develop new market areas.

Throughout 1981, we had a high level of support from our many employees, dealers, suppliers and shareholders. This continuing support and enthusiasm for Goodyear Canada will enable us to remain as the number one tire and rubber company in Canada.

With the approval of the Board of Directors.

C.H. JOHNSON
PRESIDENT & CHIEF EXECUTIVE OFFICER

FEBRUARY 10, 1982

BOARD OF DIRECTORS

T.A. BUELL *
VANCOUVER

C.E. CLARKE
TORONTO

P.P. DAIGLE *
MONTREAL

A.S. FELL *
TORONTO

J.R. HICKS *
AKRON

C.H. JOHNSON
TORONTO

W.L. MINOR
AKRON

C.J. PILLIOD JR.
AKRON

H.G. WLOKA
TORONTO

* MEMBER OF THE AUDIT COMMITTEE

OFFICERS

C.H. JOHNSON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

G.A. CHURCH
VICE PRESIDENT, CORPORATE TIRE SALES

C.E. CLARKE
VICE PRESIDENT AND GENERAL COUNSEL/SECRETARY

L.F. HUHTA
VICE PRESIDENT, TIRE PRODUCTION

P.G. MACKIE
VICE PRESIDENT, MATERIALS MANAGEMENT

D.A. MASTERS
VICE PRESIDENT, GENERAL PRODUCTS

C.G. THORPE
VICE PRESIDENT, MANUFACTURERS' SALES

P.E. VIVIAN
VICE PRESIDENT, PERSONNEL

H.G. WLOKA
VICE PRESIDENT, FINANCE

W.R. HAYWARD
COMPTROLLER

J. RENNIE
TREASURER

G.W. BARNES
ASSISTANT SECRETARY

H.P. LOVERING
ASSISTANT TREASURER

W.C. MONROE
ASSISTANT COMPTROLLER

G.W. STREETER
ASSISTANT COMPTROLLER

F.E. WALKER
ASSISTANT COMPTROLLER

GOODYEAR IN CANADA

The story of Goodyear in Canada is a story of progress and expansion. The Goodyear Tire & Rubber Company, the world's largest rubber company, came to Canada in 1910 when the first Canadian plant was established at Bowmanville, Ontario. Only seven years had passed when it became necessary to expand the company's production facilities. And so, in 1917, a new factory was built in Toronto to house the tire plant and the company's head office.

In less than a decade, increasing business forced a further extension of manufacturing facilities and a mill was established at Saint-Hyacinthe, Quebec to supply fabric for tires produced at Toronto, and hose, belting and mechanical goods produced at Bowmanville.

By the beginning of World War II, Goodyear had grown to a large Canadian company and was able to play a significant role in war production. The release of pent-up civilian demand following the war created a need for further growth, and Goodyear embarked on a \$15.5 million expansion program.

In 1947 a factory was opened at Quebec City to manufacture molded and extruded rubber goods and shoe products.

Growth continued in the 1950's with the Toronto tire plant undergoing expansion and in 1959, with a \$2.5 million complex housing a distribution centre and district offices opening in Toronto. The following year, to serve Western Canada's growing markets, Goodyear built a tire plant in Medicine Hat, Alberta.

In 1964, the company acquired the Seiberling Rubber Company of Canada Limited with its tire plant in Toronto. Recognizing the potential of the Quebec and Atlantic provinces' markets, the company opened a passenger tire factory at Valleyfield, Quebec in 1965. The same year, Goodyear announced plans for another factory, an automotive foam products plant, at Owen Sound, Ontario.

Early in 1966, the company launched a multi-million dollar expansion program for the Industrial Products Division which included the establishment of a \$3 million plant at Collingwood, Ontario to manufacture hose. Later that year, Goodyear announced the construction of a \$4 million earthmover tire facility at Valleyfield, Quebec and, early in 1968, revealed plans for an \$11.5 million expansion to the passenger tire section of the same plant.

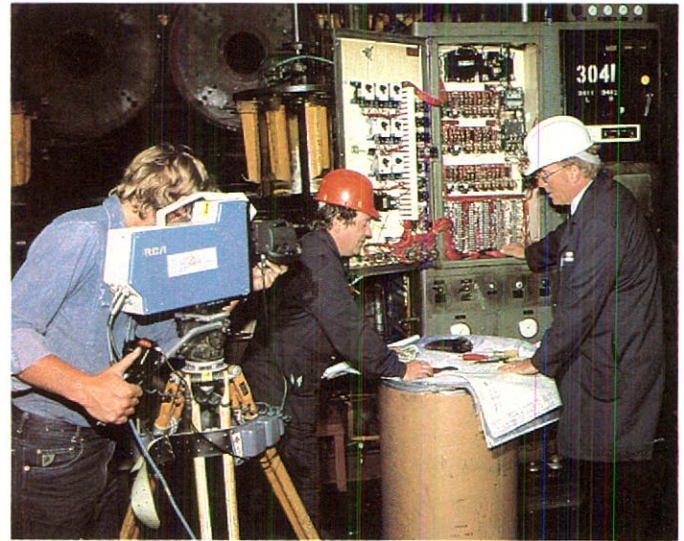
In 1972, work began on a \$1.5 million expansion to the Collingwood plant. More than 70,000 square feet were added for hydraulic brake hose manufacturing. The company also opened a \$2.5 million distribution centre in St. Laurent, Quebec that year.

In February 1973, the company announced a \$56 million expansion of the Valleyfield plant for the manufacture of steel radial tires for passenger cars and trucks.

In January of 1975, Goodyear Canada purchased the Kelly-Springfield Tire Company of Canada Limited and its

subsidiary, Hallmark Automotive Centres Limited. Also in 1975, the company changed its name from The Goodyear Tire & Rubber Company of Canada, Limited to Goodyear Canada Inc.

In October of 1978, the company invested \$7.5 million to further expand radial tire production in its plant located in Valleyfield, Quebec. The project involved a 22,000 square foot building addition and the installation of new machinery. Goodyear's investment in Valleyfield is now in excess of \$90 million.



Goodyear Canada continued with its 'Competitive Edge' employee communication program in 1981. The program included film taken during the New Toronto plant radial tire conversion.



Goodyear Canada was part of the 'Wheels' exhibition at the Ontario Science Centre during the summer of 1981. Three million people passed through the display which included information on Goodyear's expertise in tire technology -- past, present and future.

In October 1980, the company approved an investment of \$16.5 million to expand radial passenger and radial light truck production in Goodyear's New Toronto factory. The first tire from this expansion was produced in September 1981.

Goodyear is the only major Canadian rubber company in which Canadians share ownership. Its common and preferred shares are listed on the Toronto Stock Exchange.

GOODYEAR PEOPLE

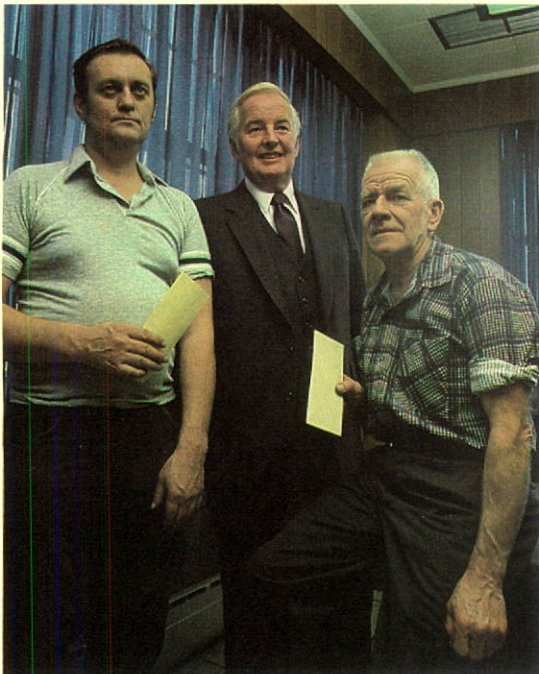
Innovation continued to be an important factor in Goodyear Canada operations during 1981 as the company launched a revitalized program calling for suggestions and new ideas from all employees.

Ken Hillman was appointed Manager, Corporate Innovation, and during the first full month the program was in operation, the company received 300 suggestions and new ideas.

While several small suggestion awards had been made, the first significant awards went to two employees of the conveyor belt plant at Bowmanville, Ontario.

Gordon Millson received \$1,070 for a suggestion which eliminated labor in a calendaring operation, and Alan Brown was awarded \$275 for recommending a change in the production of rubber cement, which also reduced labor costs.

Brown, in his fortieth year of service, and Millson, a 25-year employee, say they are always on the lookout for methods to improve efficiency and working conditions. Brown, who had won suggestion awards previously, feels that when you sense you can improve on something, you never give up until it's done.



Ken Hillman (center) presents suggestion awards to Bowmanville employees Gordon Millson (left) and Alan Brown (right).

CORPORATE HEADQUARTERS

21 FOUR SEASONS PLACE
ISLINGTON, ONTARIO
M9B 6G2

MANUFACTURING PLANTS

BOWMANVILLE, ONTARIO

CONVEYOR BELTING
SPECIAL PRODUCTS
MOLDED PUMP PARTS
RECLAIMED RUBBER
INDUSTRIAL TIRES

COLLINGWOOD, ONTARIO

AUTOMOTIVE, INDUSTRIAL
AND HYDRAULIC HOSE

MEDICINE HAT, ALBERTA

TIRES FOR AUTOMOBILES, LIGHT
TRUCKS AND FARM VEHICLES

OWEN SOUND, ONTARIO

POWER-TRANSMISSION PRODUCTS FOR
AUTOMOTIVE AND INDUSTRIAL APPLICATIONS

QUEBEC, QUEBEC

MOLDED AUTOMOTIVE AND INDUSTRIAL PRODUCTS
EXTRUDED AUTOMOTIVE, INDUSTRIAL AND
APPLIANCE PRODUCTS
SHOE PRODUCTS

SAINT-HYACINTHE, QUEBEC

STEEL, POLYESTER, FIBERGLASS
AND NYLON FABRICS

TORONTO, ONTARIO (2)

TIRES FOR AUTOMOBILES, TRUCKS,
LOGGING AND FARM VEHICLES
INDUSTRIAL TIRES
TUBES
PLASTIC FILMS

VALLEYFIELD, QUEBEC

TIRES FOR AUTOMOBILES, TRUCKS
AND OFF-THE-ROAD VEHICLES

SALES OFFICES

CALGARY, ALBERTA
EDMONTON, ALBERTA
MONCTON, NEW BRUNSWICK
SAINT-LAURENT, QUEBEC
SASKATOON, SASKATCHEWAN
TORONTO, ONTARIO
VANCOUVER, BRITISH COLUMBIA
WINNIPEG, MANITOBA

GOODYEAR STORES

104 GO CENTRES ACROSS CANADA

SUBSIDIARIES

SEIBERLING CANADA INC.
KELLY-SPRINGFIELD CANADA INC.
HALLMARK AUTO-CENTRES INC.
CHAUFFAGE SAINT-MALO LIMITEE
GOODYEAR GAS WELL NO. 5-130 LIMITED

INCORPORATION

PROVINCE OF ONTARIO

STOCK LISTING

THE TORONTO STOCK EXCHANGE

TRANSFER AGENT AND REGISTRAR

CANADA PERMANENT TRUST COMPANY
TORONTO

TIRES

From a tire sales standpoint, Goodyear Canada more than held its own in 1981, achieving sales growth for both radial passenger and truck tires.

Highlighting the year was an all-out drive to improve the company's penetration of the radial truck tire market; a campaign that resulted in dramatic sales gains.

Playing a key role here was the introduction of the G167 radial drive-wheel tire for line-haul service. Introduced in March, the G167 marked a Goodyear breakthrough in radial technology and was met with strong consumer acceptance. The new radial offers truckers an excellent combination of long wear and excellent traction, coupled with fuel economy and good retreadability.

Design of the G167 was the result of a lengthy development project aimed at bringing these characteristics together; all in just one tire. The net result: Outstanding performance at a low cost-per-mile -- factors of critical importance to today's cost conscious truckers and fleet operators.

The secret to the G167's low cost-per-mile and outstanding performance lies in its wide footprint and aggressive, deeper-than-normal tread, combined with steel-reinforced construction for durability.

Coupled with the G167, a range of marketing and sales programs were implemented in 1981 to communicate effectively with the Canadian trucking community. Emphasis was placed on the quality and cost-effectiveness of Goodyear's complete line of truck radials. Also, special attention was paid to money-saving tire maintenance techniques through a continuing program of nation-wide fleet surveys for truckers conducted by the company's field sales force.

Arriva, Goodyear's premium all-season passenger radial, continued to be extremely popular with Canadian motorists throughout 1981. Introduced in the first quarter of 1980, Arriva has successfully met consumer demands for greater fuel efficiency, longer wear and good performance in all weather conditions.

Like its predecessor, Tiempo, the first all-season radial to be introduced by Goodyear back in 1978, Arriva meets the industry's definition of a mud and snow tire, which can avoid the need for the traditional winter tire changeover.

During the year, 11 new sizes were added to the Arriva line for compact and sub-compact cars. Also making its debut during 1981 was the distinctive 'Arriva GT', which was specially developed for the Ford EXP world car.

Also continuing its popularity with Canadian motorists in 1981 was the 'Eagle'. This premium passenger radial offers consumers a smooth ride combined with excellent traction and handling.

Goodyear's traditional leadership role in the high performance and racing tire markets was well maintained in 1981 with the introduction of a new line of performance tires. Also called 'Eagle', the tires were the result of Goodyear's advanced race tire technology and met with wide acclaim in Canada's performance tire market. Dur-





Goodyear Go Centre manager (right) describes performance characteristics of Arriva All-Season radial to customer.

ing 1981, drivers using Eagle NCTs -- the premium tire of the line -- won several competitions, including the national Corvette Slalom Championship conducted by the Capital Corvette Club of Canada.

Another widely accepted newcomer to the Goodyear Canada tire line was the Wrangler All-Season Radial, introduced during the first quarter. This was the first all-season radial -- designed specifically for light trucks -- to be introduced into the Canadian market place.

This special entry into the light truck market offers consumers outstanding traction in any weather condition, on and off-the-road.

As in 1980, the trend to radials continued to accelerate during 1981. While use of passenger and truck radials continued their steady climb, the most dramatic gains in radial usage took place on the farm where radials are still relative newcomers. Farmers are turning to the radial in larger and larger numbers as a time and fuel saver.

The key to the farm radial's performance is its tractive efficiency. Goodyear's Ultra Grip farm radial, for example, takes a bigger, firmer bite into the soil, reducing tire slippage. The result is more acreage worked in less time.

As fuel costs rise and farmers turn to larger equipment to work farms generally increasing in size throughout North America, the farm radial is expected to become more and more popular.

Another Goodyear entry into the 1981 farm tire market was a new bias-ply rear tractor tire. Called Dyna Torque,

Over 500 farmers and tractor dealers gathered at Goodyear's experimental farm at Litchfield Park, Arizona (top left) to witness the demonstration of a new, ultra modern four-wheel drive tractor. Made by Versatile Farm Equipment Co. of Winnipeg, Manitoba and equipped with Goodyear farm tires, the new 1150 tractor (centre, left) represents the latest in large tractor technology.

Wrangler All-Season radials were the choice for Nicholas Hervey and Caroline Clifford. Their Land Rover carried them on a around the world fund raising campaign for cancer research (left). The Eagle line of high performance radials was introduced in 1981. Here, Eagle ST's grace a Capri RS (right).



the new tire features a tread pattern made up of lugs of alternating lengths for greater draw bar pull, longer wear and increased durability when roaded.

Dyna Torque is ideally suited to large and mid-sized tractor applications.

Nineteen-eighty-one also saw strong activity in the off-road market. Sales were good for the twelve month period, with much interest shown in logger-skidder tires and in tires for the earthmover market.

During the year, Goodyear's chain of retail outlets completed its changeover to the 'Go Centre' designation, and the company began a major advertising campaign to

associate the 'Go Centre' name with quality tires and service in the mind of the motoring public.

From a tire production standpoint, the highlight of the year was the completion of an expansion/conversion project, increasing production capacity of radial passenger and light truck tires at Toronto plant. Costing \$16.5 million, the project was brought on stream in September.

Radial production at the Valleyfield and Toronto plants was at capacity for the first three quarters of 1981. However, the general downturn in the auto, truck and farm industries and the recession forced the company to reduce production in the fourth quarter, and eliminate some production days in late December.



In November 1981 it was announced that the Ferrari Formula One racing team, and its star driver, Canadian Gilles Villeneuve (left), would switch to Goodyear racing tires for the 1982 season.



The World Championship for Formula One drivers was again won on Goodyear racing tires. Nelson Piquet, the 1981 champion, is shown here at the Canadian Grand Prix in Montreal (right).



Goodyear steam hose is used to warm pipe, aiding the flow of oil in cold weather, at B.P.'s refinery in Oakville, Ontario (above). Goodyear Canada sells and services a wide range of general products through its national network of distributors. Shown here an employee of Blackwood Hodge Limited in Sudbury, Ontario, uses 'slitter' to trim conveyor belt to required width (below). V-belts provided by Goodyear drive a series of buzz saws at E.B. Eddy's Forest Products Limited's pulp and paper mill at Nairn Centre in Northern Ontario (right).

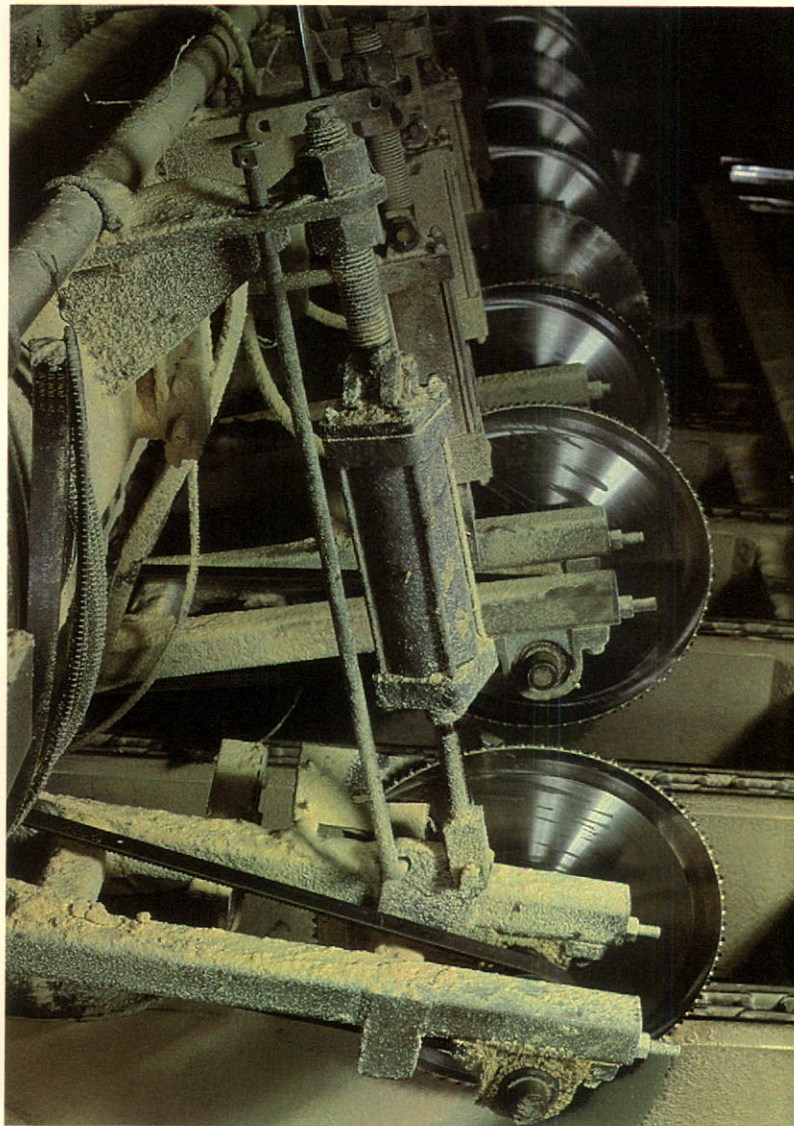


GENERAL PRODUCTS

Nineteen-eighty-one was a fine year for the general products division, both in sales and in profits. This was achieved in a tough business environment. It was also a year where emphasis was placed on new training programs, particularly in sales and marketing.

On the sales side, much improvement was seen in the sales of hose and molded and extruded products to automotive and farm implement manufacturers. Sales to these original equipment customers were particularly brisk during the first six months of 1981. Also showing substantial gains over 1980 were sales to industrial accounts.

Goodyear Canada continued with the manufacturing of conveyor belting at Bowmanville for the Soviet Union's coal mining industry. This order was won in the international marketplace as a result of the company's competitive price, the meeting of specifications and the ability to meet the delivery requirements. The buyers also realized that Goodyear Canada had an excellent product.



New filler-neck hose for automotive use was introduced in 1981 with the product passing rigorous tests for both hot and cold conditions as well as for vapor loss. Specifications require that only 250 grams of vapor can be lost through the hose over a 24-hour period. This filler-neck hose is made of a special rubber compound which is reinforced with the same fibre used in Goodyear's Eagle performance tires.

Demand for plastic films remained very strong in 1981. At the company's film manufacturing facility at Toronto plant, new equipment for the production of semi-rigid packaging films went into operation early in the year, doubling production capacity for this type of film.

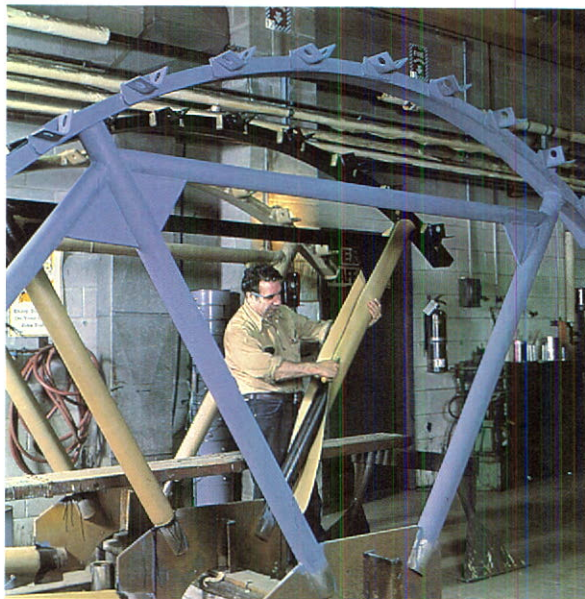
At all of Goodyear Canada's general products plants, emphasis was placed on the reduction of production costs with considerable savings being recorded by year end.

Training programs were much in evidence again in 1981. In order to improve the productivity of all general products sales and marketing personnel, each individual was trained in all product areas.

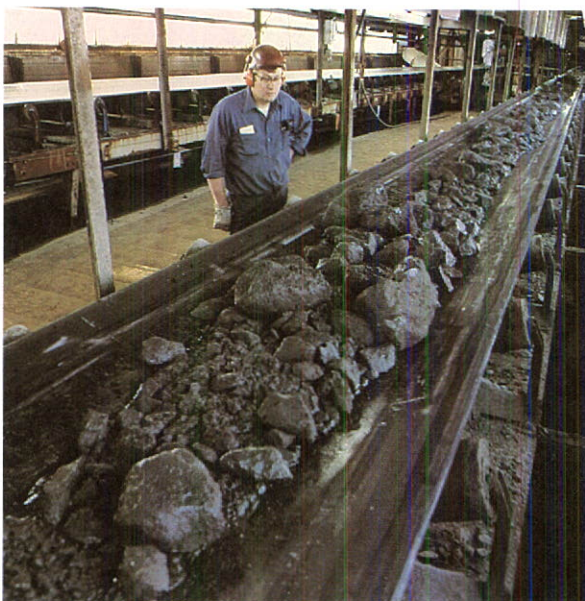
The program was designed to broaden overall knowledge and make the most out of each employee's capabilities. The course covered production processes at Bowmanville, Collingwood and Owen Sound as well as product application.

A training course was also introduced for distributors of Goodyear's general products. This 'four-step' program allows the salesman to complete one 'step' before moving on to the next. The four steps include product language and technical data used by Goodyear Canada, a product conference where Goodyear's product advantages are discussed, an idea analysis session plus a sales strategy meeting where emphasis is placed on communication effectiveness.

The continuing economic downturn and the slump in both the automotive and appliance industries have resulted in a determination to seek additional markets for existing and for new industrial products. At the same time, Goodyear Canada's traditional markets for general products will continue to receive quality products and service from the various manufacturing facilities.

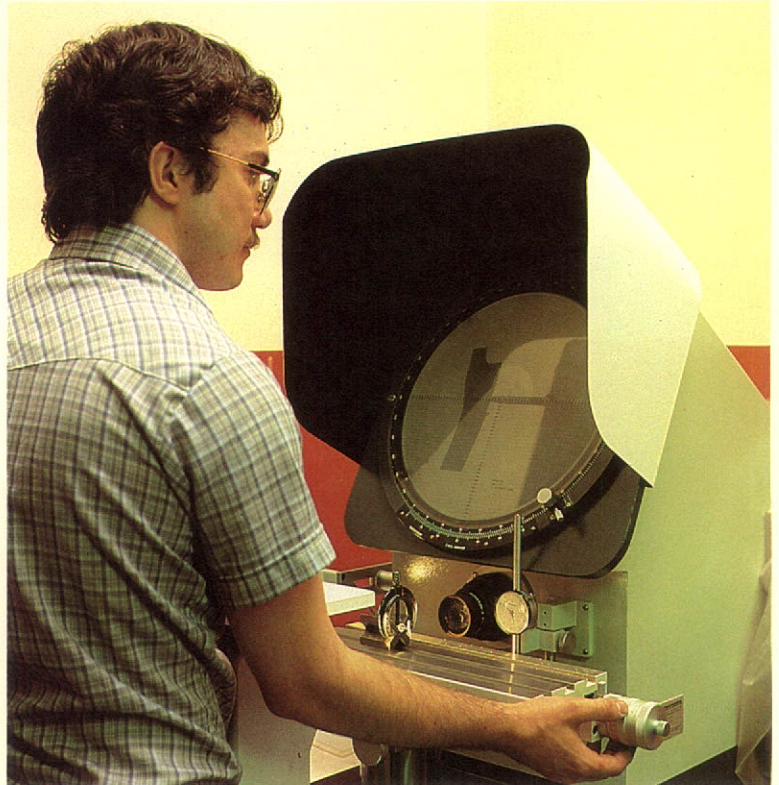
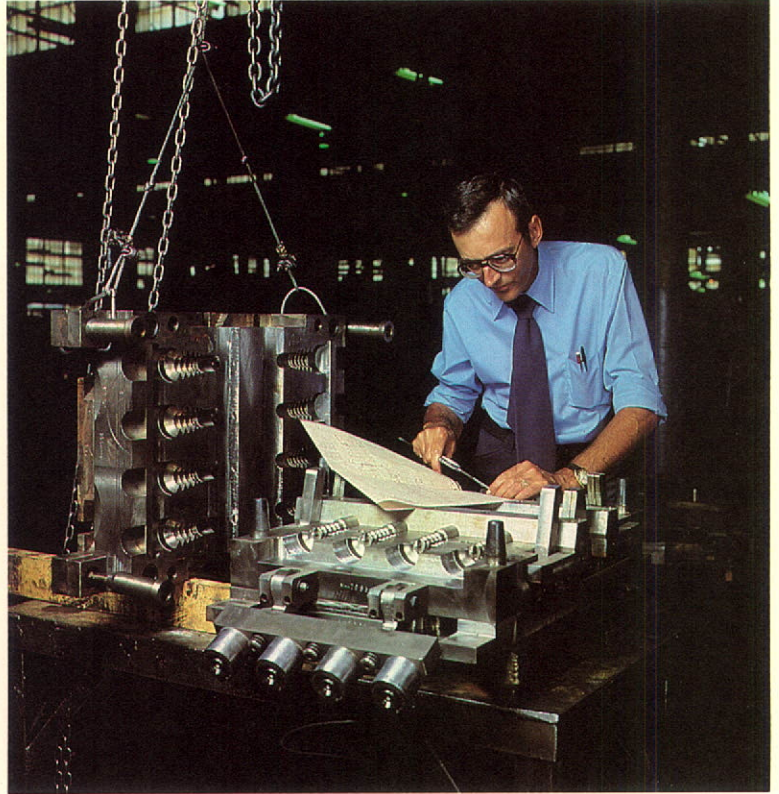


Plioweld, used to protect metal surfaces from corrosion, is applied by employee at Rema-Tech Limited of Sudbury, Ontario. When complete, the unit shown here will be used in uranium processing (above). Conveyor belt, protected by Goodyear's exclusive Sensor Guard system carries ore at Inco Metals Company's Clarabelle Mill in Sudbury. Sensor Guard, which is electronic, signals operator when tear or rip occurs, allowing the operator to stop the belt before the problem gets serious (below).





Training was a key factor in the General Products Division for 1981. The program was designed to broaden overall knowledge and make the most out of each employee's capabilities (above). Demand for plastic films remained strong in 1981, including its use as wrapping for produce (below).



Quality Control is an important aspect of production at Goodyear's molded and extruded products plant in Quebec City (top). Specifications of multiple-cavity mold used to make automotive bumpers are checked against mold blueprints by Rejéan Poulin, manager of the plant's technical department. Technician Robert Theroux uses 'Shadow Graph' machine in the plant's test lab to verify dimensions of a molded part (above).

Goodyear Canada Inc.

Consolidated Balance Sheet

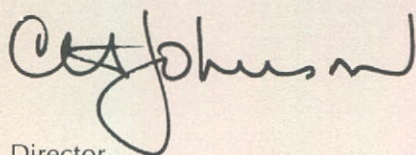
Dollars in thousands

December 31

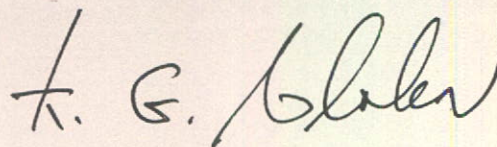
Assets

	<u>1981</u>	<u>1980</u>
Current Assets:		
Cash	\$ 361	\$ 869
Accounts receivable	69,337	70,474
Due from affiliated companies	6,484	6,272
Inventories:		
Raw materials	18,895	14,391
Work in process	8,655	7,006
Finished product	<u>101,922</u>	<u>86,023</u>
	129,472	107,420
Prepaid expenses	<u>11,217</u>	<u>10,790</u>
Total Current Assets	216,871	195,825
Miscellaneous Investments		
at cost less allowances	2,421	2,863
Properties and Plants:		
Land and improvements	5,718	5,645
Buildings	54,336	54,528
Machinery and equipment	169,923	162,215
Assets held under capital leases	10,422	10,798
Construction in progress	<u>6,942</u>	<u>3,763</u>
	247,341	236,949
Less: Depreciation	<u>141,463</u>	<u>134,060</u>
	<u>105,878</u>	<u>102,889</u>
	<u>\$325,170</u>	<u>\$301,577</u>

Approved by the Board:



Director



Director

December 31

Liabilities

	<u>1981</u>	<u>1980</u>
Current Liabilities:		
Bank indebtedness	\$ 10,476	\$ 13,034
Accounts payable and accrued liabilities	38,884	35,274
Due to affiliated companies	26,371	16,099
Income and other taxes payable	5,231	2,727
Deferred income taxes	3,425	2,507
Dividend payable on preferred shares	<u>20</u>	<u>21</u>
Total Current Liabilities	84,407	69,662
Long Term Debt	58,931	66,500
Long Term Capital Lease Obligations	4,482	4,798
Deferred Income Taxes	26,535	26,379
Deferred Income	795	441

Shareholders' Equity**Capital Stock:**

4% cumulative redeemable sinking fund preferred shares (par value \$50 per share; redeemable on call at \$53 per share):		
Authorized, issued and outstanding, 1981 - 40,774 shares; 1980 - 42,596 shares	2,039	2,130
Common shares, no par value:		
Authorized, 2,906,600 shares; issued and outstanding, 2,572,600 shares	129	129
Capital Surplus	692	692
Retained Earnings	<u>147,160</u>	<u>130,846</u>
	<u>150,020</u>	<u>133,797</u>
	<u>\$325,170</u>	<u>\$301,577</u>

Goodyear Canada Inc.

Consolidated Statement of Income

Dollars in thousands, except per share

	Year ended December 31	
	<u>1981</u>	<u>1980</u>
Net sales	\$542,211	\$493,116
Income from investments	<u>765</u>	<u>508</u>
	<u>542,976</u>	<u>493,624</u>
Deduct:		
Costs and expenses	488,846	446,380
Interest expense on long term debt	10,059	10,078
Other interest expense	2,543	2,370
Depreciation	<u>11,527</u>	<u>10,711</u>
	<u>512,975</u>	<u>469,539</u>
Income before taxes	30,001	24,085
Income taxes:		
Current	9,958	7,885
Deferred — Current	918	229
— Long term	<u>156</u>	<u>1,144</u>
	<u>11,032</u>	<u>9,258</u>
Net income for the year	<u>\$ 18,969</u>	<u>\$ 14,827</u>
Net income per common share	<u>\$ 7.34</u>	<u>\$ 5.73</u>

Consolidated Statement of Retained Earnings

Dollars in thousands

	Year ended December 31	
	<u>1981</u>	<u>1980</u>
Balance at beginning of year	\$130,846	\$118,680
Net income for the year	<u>18,969</u>	<u>14,827</u>
	<u>149,815</u>	<u>133,507</u>
Deduct:		
Dividends:		
On common shares	2,573	2,573
On 4% preferred shares	<u>82</u>	<u>88</u>
	<u>2,655</u>	<u>2,661</u>
Balance at end of year	<u>\$147,160</u>	<u>\$130,846</u>

Consolidated Statement of Changes in Financial Position

Dollars in thousands

	Year ended December 31	
	<u>1981</u>	<u>1980</u>
Source of Working Capital:		
Net income for the year	\$ 18,969	\$ 14,827
Items not affecting working capital— principally depreciation and deferred taxes	<u>12,007</u>	<u>11,544</u>
Total from operations	30,976	26,371
Long term debt	—	20
Property disposals	422	1,330
Investments	<u>442</u>	<u>—</u>
	<u>31,840</u>	<u>27,721</u>
Application of Working Capital:		
Expenditures for properties and plants	14,938	7,962
Long term debt	7,569	—
Long term capital lease obligations	316	615
Dividends	2,655	2,661
Preferred shares redeemed	61	526
Investments	<u>—</u>	<u>315</u>
	<u>25,539</u>	<u>12,079</u>
Increase in working capital	<u>\$ 6,301</u>	<u>\$ 15,642</u>

Auditors' Report

To the Shareholders of Goodyear Canada Inc.

We have examined the consolidated balance sheet of Goodyear Canada Inc. as at December 31, 1981 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Pricewaterhouse

Chartered Accountants
Toronto, January 26, 1982

Goodyear Canada Inc.

Notes to Consolidated Financial Statements

1. Accounting Policies

The consolidated financial statements include the accounts of the Company and all its subsidiary companies. All significant inter-company transactions are eliminated on consolidation.

Inventories of raw materials are valued at the lower of cost and replacement cost, and inventories of work in process and finished product at the lower of standard cost (which approximates actual cost) and net realizable value.

Properties and plants are stated at cost. Depreciation is computed using the declining balance method for depreciable assets acquired up to December 31, 1967, and the straight line method for assets acquired after that date. Depreciation rates are based on the estimated useful lives of the assets, ranging up to 15 years for machinery and equipment and up to 40 years for buildings. Gains or losses on the disposal of fixed assets are included in income and the cost and accumulated depreciation related to these assets are removed from the accounts.

Assets, liabilities, income and expenses in foreign currencies are translated into Canadian dollars on the following bases:
Current assets and current liabilities, at year-end rates of exchange; all other assets and liabilities, at historical rates of exchange; income and expenses, at approximate rates prevailing at the time of transaction.

All realized and unrealized exchange gains or losses are included in income.

The consolidated financial statements do not purport to comply with all disclosure requirements unique to The Companies Act of British Columbia.

2. Leases

Certain facilities and equipment are held under leases which generally expire within ten years, but may be renewed by the Company. The leases provide that the Company will pay taxes assessed against leased property and the cost of insurance and maintenance.

Minimum lease commitments are as follows:

	Dollars in thousands	
	Capital Leases	Operating Leases
1982	\$ 936	\$ 2,676
1983	797	2,455
1984	766	1,991
1985	748	1,960
1986	696	1,511
1987 and thereafter	<u>3,522</u>	<u>6,868</u>
Total minimum lease payments	7,465	\$17,461
Less amounts estimated to represent interest	<u>2,454</u>	
Present value of minimum lease obligations	5,011	
Less current accounts payable	<u>529</u>	
Long term capital lease obligations	<u>\$4,482</u>	

The capital lease obligations have a weighted average interest rate of approximately 8%.

3. Long Term Debt

Long term debt is comprised of bank loans and bankers' acceptances with interest at prime and slightly less than prime rates respectively. These loans and acceptances are covered by revolving credit agreements due in 1984. The bankers' acceptances, which by their terms are due within one year, have been classified as long term since it is the Company's intent to maintain these amounts as long term debt, on average.

4. Income Taxes

The Company, as a result of its manufacturing activities, is taxed at an effective rate of approximately 45%. The provision for income taxes in the Consolidated Statement of Income reflects a lower effective tax rate principally as a result of the 3% allowance on opening inventories and the 7% investment tax credit allowed on certain fixed asset additions.

5. Remuneration of Directors and Senior Officers

Remuneration of directors and senior officers amounted to \$954,000.

6. Commitments

The Company's unfunded obligation for pension benefits arising from service prior to December 31, 1981 is estimated to be \$33,441,000 (\$34,765,000 in 1980). This obligation, which has not been recorded in the accounts, is to be amortized by annual payments charged against operations through 1996.

7. Related Party Transactions

Goodyear Canada Inc., in the course of its regular business, has transactions at commercial rates with The Goodyear Tire & Rubber Company and its affiliates and utilizes technology developed by The Goodyear Tire & Rubber Company which is made available under various arrangements. During the year ended December 31, 1981, sales to related companies amounted to \$25,070,000. Purchases of goods and services from related companies amounted to \$92,112,000.

8. Segmented Information

Goodyear's principal industry segment is the production and sale of Tires and Related Transportation Products. These products include new tires and tubes, retreads, automotive belts and hose, automotive molded parts, auto repair services and merchandise purchased for resale. The other industry segment, Industrial Rubber, Plastic Products and Other Products and Services includes various kinds of hose and belting products, engineered and molded rubber products and plastic films.

Industry Segments

Dollars in thousands

	Tires and related transportation products	Industrial rubber, plastic products and other products and services	Consolidated
Sales	\$466,136	\$ 76,075	<u>\$542,211</u>
Operating profit	38,996	15,215	54,211
Interest expense			(12,602)
Corporate revenues and expenses			<u>(11,608)</u>
Income before taxes			<u>\$ 30,001</u>
Identifiable assets	288,068	25,196	\$313,264
Corporate assets			<u>11,906</u>
Total Assets			<u>\$325,170</u>
Capital expenditures	14,653	285	<u>\$ 14,938</u>
Depreciation expense	10,665	862	<u>\$ 11,527</u>

Comparison with Prior Years

Dollars in thousands, except per share	1981	1980	1979	1978	1977
Net sales	\$ 542,211	\$ 493,116	\$ 492,327	\$ 406,337	\$ 373,101
Net income	18,969	14,827	16,525	12,549	9,323
Net income per dollar of sales	3.5¢	3.0¢	3.4¢	3.1¢	2.5¢
Taxes and duties	\$ 42,174	\$ 36,920	\$ 35,054	\$ 28,176	\$ 28,469
Depreciation	\$ 11,527	\$ 10,711	\$ 10,602	\$ 10,753	\$ 10,492
Capital expenditures	14,938	7,962	16,892	4,899	5,410
Properties and plants - Net	105,878	102,889	106,968	100,891	98,664
Per common share:					
Net income	\$ 7.34	\$ 5.73	\$ 6.38	\$ 4.83	\$ 3.57
Book value	57.52	51.18	46.45	40.87	36.53
Taxes and duties	16.39	14.35	13.63	10.95	11.07
Employee compensation	\$ 164,294	\$ 149,851	\$ 146,389	\$ 123,665	\$ 118,124
Common shares outstanding	2,572,600	2,572,600	2,572,600	2,572,600	2,572,600

