Financial Contents

Management's Discussion and Analysis

RESULTS OF OPERATIONS

The consolidated statements of operations summarize operating results for the last three years. This section of Management's Discussion and Analysis highlights the main factors affecting changes in operating results during the three-year period.

EARNINGS

Earnings from continuing operations were $262 million in 2002 versus $34 million and $367 million in 2001 and 2000. The significant increase in 2002 relates primarily to the $181 million in after-tax product recall charges recorded in 2001, slightly lower restructuring expenses in 2002 and improved operating performance over 2001. The significant decrease in 2001 versus 2000 is due to the product recall and restructuring expenses recognized in 2001. Charges relating to the cumulative effect of changes in accounting principle and discontinued operations are excluded from earnings from continuing operations but included in net earnings (loss).

Millions of dollars, except per share data	2002	2001	2000
Earnings from continuing operations	$ 262	$ 34	$ 367
Diluted earnings per share from continuing operations	3.78	0.50	5.20
Net earnings (loss)	(394)	21	367
Diluted net earnings (loss) per share	(5.68)	0.31	5.20
Core earnings from operations	420	371	367
Diluted core earnings per share	6.07	5.45	5.20

Whirlpool provides core earnings analysis as a view of the underlying strength of our operations. The term "core earnings" refers to net earnings excluding the cumulative effects of the adoption of new accounting standards, discontinued operations, restructuring and related charges, write-off of asset impairments, and product recall related charges.

Core earnings improved for 2002 due to a strong performance in our North American operations, which achieved strong growth in both sales and earnings, along with a significant improvement in earnings in our European operations and the benefits of our restructuring and ongoing productivity efforts. These combined to offset the effects of economic and political instability in Latin American markets accompanied by severe currency fluctuations for the region.

The table below reconciles 2002, 2001 and 2000 net earnings (loss) to core earnings from operations. The adjustments to arrive at core earnings from operations are presented in the table on an after-tax and minority interests basis and reference the related notes to the accompanying consolidated financial statements:

Millions of dollars	2002	2001	2000
Net earnings (loss) – U.S. GAAP	$ (394)	$ 21	$ 367
Cumulative effect of changes in accounting principle (Notes 1 and 3)	613	(8)	-
Discontinued operations (Note 5)	43	21	-
Earnings from continuing operations	262	34	367
Restructuring and related charges (Note 13)	121	156	-
Write-off of equity interest and advances (Note 7)	22	-	-
Goodwill impairment (Note 3)	9	-	-
Product recall related charges (Note 14)	6	181	-
Core earnings from operations	$ 420	$ 371	$ 367

We expect that the company will continue to face challenging economic conditions worldwide during 2003. Despite this, we expect to see moderate growth during 2003, reflecting an accelerated pace of innovation and continued strengthening of Whirlpool brands throughout the world. We will also recognize additional benefits from the recently completed restructuring initiative and other productivity efforts. As a result, we expect to see improved earnings over 2002 levels.

NET SALES

The total number of units sold in 2002 increased 7.8% over 2001. Consolidated net sales increased 6.5% over 2001, which includes a negative impact from currency fluctuations. Excluding currency impact, net sales increased 7.3%. Excluding the acquisitions of Vitromatic (Whirlpool Mexico) and Polar, as described in Note 4 to the Consolidated Financial Statements, the total number of units and dollars sold increased 4.6% and 4.2%, respectively. Net sales in 2001 were up 3% over 2000 after excluding the impact of currency. The tables below provide the breakdown of units and sales by region.

In thousands	2002	Change	2001	Change	2000
Units Sold:					
North America	24,324	13.6%	21,404	3.7%	20,634
Europe	11,024	2.0	10,803	(0.7)	10,876
Latin America	4,386	(7.4)	4,738	(3.7)	4,918
Asia	2,279	11.2	2,050	4.7	1,958
Other/eliminations	(31)	–	(36)	–	(31)
Consolidated	41,982	7.8%	38,959	1.6%	38,355

Millions of dollars	2002	Change	2001	Change	2000
Net Sales:					
North America	$ 7,306	11.0%	$ 6,581	5.8%	$ 6,223
Europe	2,199	6.9	2,058	(4.5)	2,156
Latin America	1,266	(14.9)	1,487	(12.8)	1,706
Asia	391	4.8	373	(4.4)	390
Other/eliminations	(146)	–	(156)	–	(150)
Consolidated	$ 11,016	6.5%	$ 10,343	0.2%	$ 10,325

Significant regional trends were as follows:

> In 2002, North American unit volumes increased 13.6%. Approximately one-third of the volume increase resulted from the inclusion of Whirlpool Mexico in the company's consolidated results since July 2002, when the remaining 51% ownership interest was acquired. While the North American industry was up, our market share in the region fell slightly in 2002 from its record levels achieved during 2001. In 2002, net sales increased by slightly less than unit volumes as the current year's acquisition combined with competitive pricing pressures reduced average sales values.

> European unit volumes increased 2.0% versus 2001 in an industry that was down slightly. The increase is due to the inclusion of sales from Polar, which we acquired in the second quarter of 2002 as described in Note 4 to the Consolidated Financial Statements. Net sales increased by a larger percentage due primarily to positive currency fluctuations. Excluding currency impact, net sales increased 1.7%. European unit volumes were down in 2001 versus 2000 and net sales decreased by a larger percentage due to currency fluctuations and continued pricing pressures.

> Unit shipments in Latin America decreased 7.4% versus 2001 due primarily to political instability and economic volatility in the region. The region's sales, which were down 14.9% compared to 2001, were also heavily affected by currency fluctuations, including a currency devaluation in Brazil of approximately 35%. Excluding the impact of currency fluctuations, net sales decreased 3.9%, which was less than the decrease in units shipped due to some improvements in product mix and pricing. Net sales were also lower in 2001 versus 2000 due to an economic slowdown in the region, an energy crisis in Brazil and Argentina, and currency fluctuations.

> Asia's unit sales increased 11.2% over 2001, while net sales increased by 4.8% as product mix and pricing pressures combined to reduce the benefit of higher volumes. Excluding currency fluctuations, net sales increased 5.2%. The region continues to experience increased shipments in both the India and China markets. During 2001, Asia also posted growth in units shipped, but net sales were hurt by currency and product mix issues.

In 2003, we believe appliance industry shipments will increase slightly in North America and Asia, remain flat in Latin America, and decrease slightly in Europe.

GROSS MARGIN

The consolidated gross margin percentage in 2002 decreased slightly versus 2001 due primarily to continued global pricing pressures offsetting productivity improvements. The consolidated gross margin percentage declined in 2001 versus 2000 due primarily to the impact of restructuring and related charges. The table below outlines the gross margin percentages by region, excluding the impact of the 2002 and 2001 restructuring related charges of $43 million and $53 million from the regional percentages. The 2002 and 2001 restructuring related charges are included in the consolidated percentages.

	2002	Change	2001	Change	2000
Gross Margin					
North America	23.6%	0.1pts	23.5%	(0.8)pts	24.3%
Europe	22.2	0.9	21.3	(2.0)	23.3
Latin America	23.4	(2.6)	26.0	3.1	22.9
Asia	23.7	(2.5)	26.2	0.1	26.1
Consolidated	23.2%	(0.2)pts	23.4%	(0.7)pts	24.1%

Significant regional trends were as follows:

> North American gross margin increased slightly versus 2001 due to productivity improvements partially offset by lower pension credits and increased warranty costs. This increase came on sharply higher sales resulting in improved operating profit for the region. The decline in 2001 versus 2000 was due to unfavorable product and channel mix, lower pension credits and increased warranty costs offsetting productivity improvements.

> The European gross margin increased versus 2001 due to productivity improvements and savings from the ongoing restructuring efforts in Europe. In 2001, the gross margin decreased from 2000 levels due to higher material costs, an inventory write-down and continued pricing pressures.

> Latin American gross margin declined versus 2001 due to lower sales levels and higher material prices. The 2001 gross margin improved over 2000 as improved product mix, lower pension costs, productivity gains and restructuring benefits offset material price increases and pricing pressures.

> The Asian gross margin declined versus 2001 due to unfavorable product mix and pricing pressures. Asian gross margin increased slightly in 2001 versus 2000 as productivity improvements and product mix offset pricing pressures due to weakening economies included in this region.

SELLING, GENERAL AND ADMINISTRATIVE

Consolidated selling, general and administrative expenses as a percent of net sales remained unchanged versus 2001. While selling, general and administrative expenses for the North American region increased over 2001 levels, the region's increase in expense as a percentage of sales relates to the acquisition of the remaining 51% of Whirlpool Mexico and lower pension credits. Consolidated selling, general and administrative expenses as a percent of net sales for 2001 decreased versus 2000 as cost controls implemented in North America and global restructuring benefits more than offset increased bad debt expense, increased stock compensation costs, new product introduction costs, restructuring related charges and lower pension credits. The table below outlines the selling, general and administrative expenses as a percentage of sales by region, excluding the impact of the 2002 and 2001 restructuring related charges of $17 million and $9 million from the regional amounts. The 2002 and 2001 restructuring related charges are included in the "Corporate/Other" line.

Millions of dollars	2002	As a % of Sales	2001	As a % of Sales	2000	As a % of Sales
Selling, general & administrative expenses						
North America	$ 894	12.2%	$ 788	12.0%	$ 825	13.3%
Europe	407	18.5	386	18.8	386	17.9
Latin America	189	15.0	250	16.8	263	15.4
Asia	70	17.8	74	19.9	76	19.4
Corporate/Other	176	–	141	–	101	–
Consolidated	$ 1,736	15.8%	$ 1,639	15.8%	$ 1,651	16.0%

PRODUCT RECALLS

During 2001, we recognized a total of $295 million of pre-tax charges ($181 million after-tax) related to two separate product recalls. These charges were recorded as a separate component of operating profit. During 2002, we recognized additional recall related pre-tax charges of approximately $9 million for one of these recalls. See Note 14 to the Consolidated Financial Statements for a more detailed description of these charges.

RESTRUCTURING AND RELATED CHARGES

During the fourth quarter of 2002, we recognized the remaining charges for the global restructuring plan that was originally announced in December of 2000. The plan, which had a total restructuring and related pre-tax cost of $373 million, is expected to result in more than $200 million in annualized savings once fully implemented. At December 31, 2002, a liability of $122 million remains for actions yet to be implemented under the plan. Actions under the plan include the elimination of over 7,000 positions worldwide, of which approximately 5,000 had been eliminated as of December 31, 2002.

Our various restructuring initiatives resulted in pre-tax restructuring charges of $101 million and $150 million in 2002 and 2001. These amounts have been identified as a separate component of operating profit. As a result of our restructuring activity, we also recognized $60 million and $62 million in pre-tax restructuring related charges during 2002 and 2001, which were recorded primarily within cost of products sold. See Note 13 to the Consolidated Financial Statements for a more detailed description of these charges and the company's restructuring program.

OTHER INCOME AND EXPENSE

Interest income and sundry expense, which includes foreign currency gains and losses, financial service fees in Latin America and miscellaneous asset dispositions, increased slightly in expense as compared to 2001, due primarily to lower interest income, and was essentially flat in 2001 versus 2000 levels.

Interest expense decreased $19 million versus 2001, which was $18 million lower than 2000. Both decreases were due to the declining interest rate environment, and the 2002 decrease was further driven by lower average debt levels.

INCOME TAXES

The effective income tax rate from continuing operations was 35% in 2002 (excluding the impact of the restructuring and related charges, the write-off of equity interest and advances, the goodwill impairment and the product recall related charges), 35% in 2001 (excluding the impact of the product recall and restructuring and related charges) and 35% in 2000. Including the impact of the 2002 and 2001 charges mentioned above, the effective tax rate was 39% and 46%, respectively. See the income tax rate reconciliation included in Note 15 to the Consolidated Financial Statements for a description of the significant items impacting our consolidated effective income tax rate. We expect the 2003 effective tax rate from continuing operations to be approximately 36%.

EQUITY IN EARNINGS (LOSS) OF AFFILIATED COMPANIES

The 2002 results were reduced by a $22 million after-tax impairment charge related to the company's minority investments in and advances to a European business. The company acquired its initial investment in this entity with its purchase of the appliance operations of Philips Electronics N.V. in 1989. Continued deterioration in the German marketplace led to overcapacity in the wood cabinet industry, which resulted in the business revising its estimated future cash flows. These circumstances prompted the company to conduct an impairment review, resulting in the above charge, which is reflected in equity earnings (loss) in the consolidated statement of operations.

DISCONTINUED OPERATIONS

As a result of the United Airlines ("UAL") bankruptcy filing in December 2002, we wrote off our related investment in leveraged aircraft leases during the fourth quarter of 2002. The write-off resulted in a non-cash charge to discontinued operations of approximately $68 million, or $43 million after tax. Also, as a result of the UAL bankruptcy filing, we reclassified the related $49 million deferred tax liability on the leveraged leases to current taxes payable as of December 31, 2002. These leveraged lease assets were part of our previously discontinued finance company, Whirlpool Financial Corporation.

During the second quarter of 2001, we wrote off an investment in a securitized aircraft portfolio that was also owned by Whirlpool Financial Corporation. The write-off, due primarily to the softening aircraft leasing industry, resulted in a loss from discontinued operations of $35 million, or $21 million after-tax.

CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE

The company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. As a result of this adoption, the company recorded a non-cash, after-tax charge of $613 million.

The company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended on January 1, 2001. The adoption of Statement No. 133 resulted in $8 million of income, net of tax, in the company's statement of operations and a $11 million decrease, net of tax, in stockholders' equity.

See Notes 1 and 3 to the Consolidated Financial Statements for a more detailed description of these changes in accounting principles.

CASH FLOWS

The statements of cash flows reflect the changes in cash and equivalents for the last three years by classifying transactions into three major categories: operating, investing and financing activities.

OPERATING ACTIVITIES

Our main source of cash flow is from operating activities consisting of net earnings adjusted for changes in operating assets and liabilities, such as receivables, inventories and payables, and for non-cash operating items, such as depreciation.

Cash provided by operating activities totaled $812 million in 2002, $1,024 million in 2001 and $445 million in 2000. The decrease in 2002 relates primarily to the $239 million in product recall payments made during the year and to changes in deferred and current taxes. The increase in 2001 versus 2000 includes a $527 million improvement in working capital cash flows versus 2000, of which $464 million was in accounts receivable.

INVESTING ACTIVITIES

The principal recurring investing activities are capital expenditures, which were $430 million, $378 million and $375 million in 2002, 2001 and 2000, respectively.

On November 18, 2002, we acquired the remaining 20% interest in Whirlpool Narcissus Shanghai Company Limited ("Narcissus") for $9 million. In accordance with the purchase agreement, 40% of the purchase price was paid during 2002, with the remaining 60% to be paid during 2003.

On July 3, 2002, we acquired the remaining 51% ownership in Vitromatic S.A. de C.V. (Whirlpool Mexico), an appliance manufacturer and distributor in Mexico. The aggregate purchase price was $151 million in cash plus assumption of outstanding debt at the time of acquisition, which totaled $143 million.

On June 5, 2002, we acquired 95% of the shares of Polar S.A. (Polar), a leading major home appliance manufacturer in Poland. The aggregate purchase price was $27 million in cash plus outstanding debt at the time of acquisition, which totaled $19 million.

On October 5, 2001, we closed our position in a portfolio of cross currency interest rate swaps resulting in the receipt of $209 million.

On January 7, 2000, we completed our tender offer for the outstanding publicly traded shares in Brazil of our subsidiaries Brasmotor and Multibras S.A. Eletrodomesticos (Multibras). In completing the offer, we purchased additional shares of Brasmotor and Multibras for $283 million, bringing our equity interest in these companies to approximately 94%. With this additional investment, our combined equity interest in all Brazilian subsidiaries increased from approximately 55% to approximately 87%.

FINANCING ACTIVITIES

Total borrowings (repayments) of short-term and long-term debt were $(152) million, $(569) million and $546 million in 2002, 2001 and 2000, respectively, excluding the effect of currency fluctuations and acquired debt.

On July 3, 2001, we issued 300 million euro denominated 5.875% Notes, due 2006. The notes are general obligations of the company, and the proceeds were used for general corporate purposes.

Dividends paid to stockholders totaled $91 million, $113 million and $70 million in 2002, 2001 and 2000, respectively. The large payment in 2001 was affected by the timing of funding for the fourth quarter 2000 payment, which was paid on January 2, 2001.

Under our stock repurchase program, we purchased 0.7 million shares ($46 million) in 2002, 0.7 million shares ($43 million) in 2001 and 8.7 million shares ($427 million) in 2000. See Note 11 to the Consolidated Financial Statements for additional detail on the company's stock repurchase program.

FINANCIAL CONDITION AND LIQUIDITY

Our financial position remains strong. At December 31, 2002, our total assets were $6.6 billion versus $7.0 billion at the end of 2001. Stockholders' equity declined from $1.5 billion at the end of 2001 to $0.7 billion at the end of 2002. The decreases were primarily the result of a $613 million charge relating to the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," a $151 million charge to equity to recognize a minimum liability on defined benefit pension plans and $148 million in foreign currency translation adjustments.

During 2002, long-term debt of $162 million was assumed through our acquisitions of Whirlpool Mexico and Polar. Excluding this assumed debt, total debt for the company decreased by $100 million, as strong cash flows funded the acquisition costs and were used to reduce indebtedness.

In May 2002, we renewed our existing $400 million committed 364-day credit facility for another 364 days. We also have a $800 million committed credit facility that was entered into on June 1, 2001, and matures in 2006. These committed facilities support our commercial paper programs and other operating needs. There were no borrowings under these facilities during 2002 or 2001. We were in full compliance with our bank covenants throughout both 2002 and 2001. None of our material debt agreements requires accelerated repayment in the event of a decrease in credit ratings. Our debt continues to be rated investment grade by Moody's (Baa1), Standard & Poor's (BBB+) and Fitch (A-).

We guarantee the indebtedness of a European affiliate and certain customers of a Brazilian subsidiary as discussed in Note 9 to the Consolidated Financial Statements. We do not expect these guarantees to have a material effect on our financial condition or liquidity.

We believe that our capital resources and liquidity position at December 31, 2002, are adequate to meet anticipated business needs and to fund future growth opportunities. Currently, we have access to capital markets in the U.S. and internationally. See Note 8 to the Consolidated Financial Statements for additional details on our committed credit facilities and debt obligations.

OTHER MATTERS

In December 1996, Multibras and Empresa Brasileira de Compressores S.A. (Embraco), Brazilian subsidiaries, were granted additional export incentives in connection with the Brazilian government's export incentive program (Befiex). These incentives allowed the use of credits as an offset against current Brazilian federal excise tax on domestic sales. We recognized credits of $42 million, $53 million and $52 million in 2002, 2001 and 2000, respectively, as a reduction of current excise taxes payable and, therefore, an increase in net sales. The company's remaining credits are approximately $207 million at December 31, 2002. However, we do not expect to recognize additional Befiex credits beyond the first quarter of 2003 until the calculation of the credit, which is currently under review, is confirmed by the Brazilian courts.

At December 31, 2002, our defined benefit pension plans were underfunded on a combined basis. Poor equity market performance reduced the value of pension assets, while extremely low interest rates reduced the discount rate, which increased the present value of liabilities. As a result, we recorded a $151 million, after-tax, non-cash charge to equity during the fourth quarter of 2002 to recognize a minimum liability as required under SFAS No. 87, "Employers' Accounting for Pensions." We recognized consolidated pre-tax pension credits of $24 million, $70 million and $98 million in 2002, 2001 and 2000. The assumptions used in determining our obligation under our U.S. pension plans at

the end of 2002 included an expected return on assets of 8.75% versus 10.00% at the end of 2001, and a discount rate of 6.75% versus 7.50% at the end of 2001. Our expected return on assets of 8.75% is based on historical market returns between 1926 and 2002 applied to our allocation of plan assets. We currently expect that U.S. pension expense for 2003 will be approximately $63 million, based on the lower asset return rate and discount rate assumptions. Consolidated expense is anticipated to be approximately $76 million.

Although most of its assets have been divested, Whirlpool Financial Corporation remains a legal entity with assets consisting primarily of a leveraged lease portfolio. The portfolio includes investments in aircraft leveraged leases and is affected by the economic conditions of the aviation industry. See Note 5 to the Consolidated Financial Statements. The company continues to monitor its arrangements with the lessees and the value of the underlying assets.

CRITICAL ACCOUNTING POLICIES

Management has evaluated the accounting policies used in the preparation of the accompanying financial statements and related notes, and believes those policies to be reasonable and appropriate. Our accounting policies are described in Note 1 to the Consolidated Financial Statements. Certain of these accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our critical accounting policies include the following:

Pension and Other Postretirement Benefits

Accounting for pensions and other postretirement benefits involves estimating the costs of future benefits and attributing the cost over the employee's expected period of employment with the company. The determination of our obligation and expense for these costs requires the use of certain assumptions. Those assumptions are included in Note 16 to the Consolidated Financial Statements and include, among others, the discount rate, expected long-term rate of return on plan assets, and rates of increase in compensation and healthcare costs. In accordance with generally accepted accounting principles, actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense and recorded obligation in such future periods. While we believe that our assumptions are appropriate given current economic conditions and our actual experience, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other postretirement obligations and related future expense.

Income Taxes

As part of the process of preparing our consolidated financial statements, we estimate our income taxes in each of the taxing jurisdictions in which we operate. This process involves estimating our actual current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing expenses, for tax and accounting purposes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." These differences may result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. We are required to assess the likelihood that our deferred tax assets, which include net operating loss carryforwards and temporary differences that are expected to be deductible in future years, will be recoverable. If recovery is not likely, we provide a valuation allowance based on our estimates of future taxable income in the various taxing jurisdictions, and the amount of deferred taxes that are ultimately realizable. If future taxable income was lower than expected or if tax planning strategies were not available as anticipated, we may record additional valuation allowances through income tax expense in the period such determination is made. Likewise, if we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amounts, an adjustment to the deferred tax asset would increase income in the period such determination is made. As of December 31, 2002, we had total deferred tax assets of $698 million, net of valuation allowances of $65 million (see Note 15 to the Consolidated Financial Statements).

In addition, we operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. In our opinion, adequate provisions for income taxes have been made for all years.

Befiex Credits

As discussed above, our Brazilian subsidiaries have been recognizing benefits under the Brazilian government's export incentive program (Befiex) as an offset against current Brazilian federal excise tax on domestic sales. Since the initial granting of these credits in 1996, it has been our policy to recognize these credits as they have been monetized. There have been, however, ongoing legal proceedings relating to this program, and it is presently under review within the Brazilian court system. We have chosen not to recognize any of our remaining credits of $207 million under the program beyond the first quarter of 2003 until the Brazilian courts have confirmed the method used to calculate those remaining credits.

Product Recall

The establishment of a liability for product recall expenses is occasionally required and is impacted by several factors, such as customer response rate, consumer options, field repair costs, inventory repair costs, extended warranty costs, communication structure, and other miscellaneous costs, such as legal, logistics and consulting. The customer response rate, which represents an estimate of the total number of units to be serviced as a percentage of the total number of units impacted by the recall, is the most significant factor in estimating the total cost of each recall. These rates are impacted by several factors, including the type of product, the year manufactured, age of the product sold, and current and past experience factors. Significant differences between our assumptions and our actual experience or significant changes in our assumptions could have a material impact on our product recall reserves, if any.

MARKET RISK

We are exposed to market risk from changes in foreign currency exchange rates, domestic and foreign interest rates, and commodity prices, which can affect our operating results and overall financial condition. We manage our exposure to these market risks through our operating and financing activities, and, when deemed appropriate, through the use of derivative financial instruments. Derivative financial instruments are viewed as risk management tools and are not used for speculation or for trading purposes. Derivative financial instruments are entered into with a diversified group of investment grade counterparties to reduce our exposure to nonperformance on such instruments. Our sensitivity analysis reflects the effects of changes in market risk but does not factor in potential business risks of the counterparties or appropriate use of instruments.

We use foreign currency forward contracts to hedge the price risk associated with firmly committed and forecasted cross-border payments and receipts related to our ongoing business and operational financing activities. Foreign currency contracts are sensitive to changes in foreign currency exchange rates. At December 31, 2002, a 10% unfavorable exchange rate movement in our portfolio of foreign currency forward contracts would have resulted in an incremental unrealized loss of $65 million, while a 10% favorable shift would have resulted in an incremental unrealized gain of $72 million. Consistent with the use of these contracts to neutralize the effect of exchange rate fluctuations, such unrealized losses or gains would be offset by corresponding gains or losses, respectively, in the remeasurement of the underlying exposures.

We use commodity swap contracts to hedge the price risk associated with firmly committed and forecasted commodities purchases that are not fixed directly through supply contracts. As of December 31, 2002, a 10% unfavorable shift in commodity prices would have resulted in an incremental loss of $3 million, while a 10% favorable shift would have resulted in an incremental gain of $3 million.

We utilize interest rate swaps to hedge our interest rate risk. As of December 31, 2002, a 10% shift in interest rates would have resulted in an incremental $1 million gain or loss related to these contracts.