THE DAILY REPORT FOR AUTOMOTIVE EXECUTIVES

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OIL HITS $30 PER BARREL, U.S. GASOLINE PRICES POISED TO RISE. Oil futures have topped $30 per barrel in New York and could reach $35 or more by the end of the week if strikes and protests continue to shut down Venezuela's oil industry, analysts tell *The New York Times*.

Oil prices were under $20 per barrel at this time a year ago. They rose to almost $30 by early fall, then dropped to around $25 in November.

Analysts say continuing disruptions in Venezuela could begin affecting American fuel prices this week because the country is a significant supplier of refined gasoline to the U.S.

The Organization of the Petroleum Exporting Countries has ample capacity to offset a Venezuelan shortfall. But almost all its production capacity is in the Persian Gulf and could not reach the U.S. fast enough to avoid a run-up in gasoline prices lasting at least 40 days. An outbreak of war between the U.S. and Iraq could threaten that option, analysts point out.

The only immediate source of extra oil for the U.S. is the country's Strategic Petroleum Reserve, a 600 million barrel stockpile intended to help the country through an oil supply crisis.

TOWER TO DROP EXPLORER SUV BUSINESS. In a public announcement unusual for a supplier, Tower Automotive Inc. says it cannot meet price reductions demanded by Ford Motor Co. and will stop supplying frames for the Ford Explorer SUV when the current model is replaced by a next-generation vehicle.

Tower is the sole supplier of Explorer frames. The Grand Rapids, Mich.-based company says it hasn't decided what to do with the Indiana plant that produces the components after the current program ends in about three years.

Tower, which says it still has a $1.4 billion backlog of new orders from other customers through 2004, also supplies frames for other Ford vans, pickups and SUVs.

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HONDA EXPECTS 10% SALES GAIN NEXT YEAR. Honda Motor Co. predicts it will sell a record 3.1 million cars and SUVs worldwide in 2003, up 10% from more than 2.8 million this year.

The Japanese OEM expects to boost its domestic sales by 4.4%. It also estimates its North American sales next year at 1.35 million vehicles, up 10%.

BORGWARNER CONSOLIDATES BUSINESS UNITS. Chicago-based BorgWarner Inc. has begun restructuring itself into two business groups, Engine and Drivetrain. The reorganization will be completed in January.

Under the new structure, the company's Engine Group—responsible for such products as turbochargers and cooling systems—reports to BorgWarner President

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Timothy Maganello. The Driveline Group, which includes transmissions and drivetrain components, reports to Group President Robert Welding.

FIAT PUMPS MORE CASH INTO AUTO UNIT. Fiat SpA has injected $2.5 billion into Fiat Auto for the second time in six weeks to keep the unit in compliance with Italian law.

Recapitalization is required in Italy when a company's losses surpass one-third of its net assets. Fiat Auto is expected to lose $2 billion this year.

In November Fiat canceled $2.5 billion in debt owed by the automaking unit to its parent. As in that case, this week's transfusion involved Fiat resources exclusively, had no overall financial impact on Fiat and was carried out without the financial help of General Motors Corp., which owns 20% of Fiat Auto.

BOSCH TO GET A NEW CHAIRMAN. Hermann Scholl, chairman of Robert Bosch GmbH since 1993, will be replaced by Franz Fehrenbach on July 1, according to the company. Scholl is expected to remain as chairman of the company's supervisory council.

Scholl's duties as chairman of Bosch's automotive business sector will be assumed by Bernd Bohr, who joined the company 20 years ago and joined its management board in 1999.

HAYES LEMMERZ SEES END TO BANKRUPTCY. Hayes Lemmerz International Inc. says it should be able to emerge from bankruptcy protection in the first half of 2003.

The Northville, Mich.-based supplier of wheels and other components, has been operating under Chapter 11 protection for a year and currently awaits approval from its creditors and bankruptcy court for its reorganization plan.

Yesterday the company reported a net income of $3.7 million on nearly 4% higher sales of $535 million for the fiscal quarter ended Oct. 31. It lost $54 million in the same period last year.

GM DAEWOO LAUNCHES NEW ENGINE PLANT. GM Daewoo Auto & Technology Co. said yesterday it has begun producing four-cylinder gasoline engines at a new $100 million facility in Changwon, South Korea.

The plant, with eventual capacity to build 220,000 engines annually, will supply two lines of GM Daewoo vehicles, including the Kalos introduced last May and intended for export to Europe to compete with such small cars as the Ford Fiesta and Peugeot 206.

JAGUAR TO TARGET WEALTHY GAYS. Ford Motor Co.'s Jaguar unit is launching a subtle U.S. print ad campaign this month aimed at homosexual buyers. The program, whose ads will appear primarily in such publications as *Out* and *The Advocate*, will run to next April.

Such campaigns, rare in the U.S., are more common overseas. But it's a first for Ford in the American market, where the company estimates the gay market at more than 14 million. Ford may expand the program with direct mail and event sponsorships, according to a Reuters report.

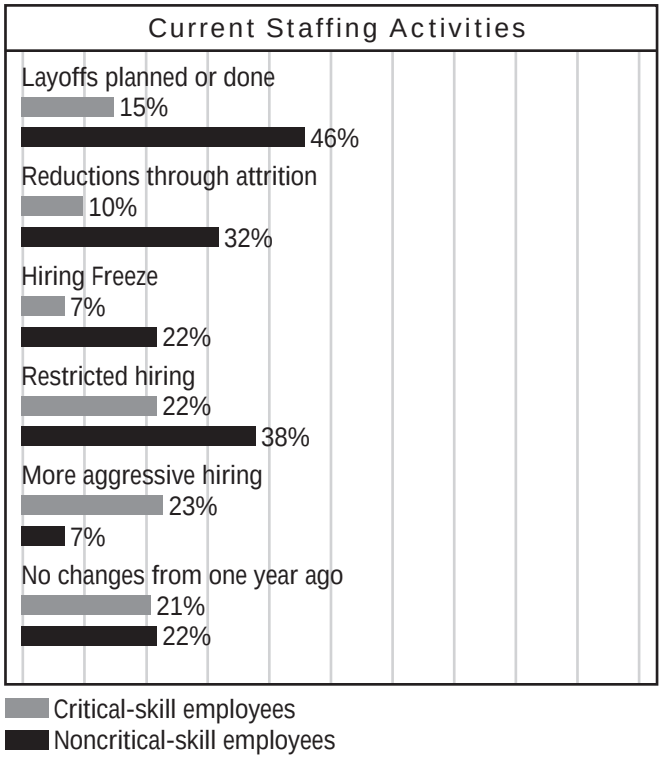
Chrysler Group announced last July it had hired GlobalHue—an organization created by three ad agencies—to create ad campaigns appealing to a variety of special consumer groups, including gays.

A CORRECTED CHART. Some of the bars in the table below shifted position during the production of Monday's issue. This is how the chart should appear:

Watson Wyatt
Worldwide

Hiring Of Critical-Skill Employees

Despite the temporary easing of the labor shortage, nearly one-quarter of employers in the U.S. and Canada say they are aggressively hiring critical-skill employees.



Data: Watson Wyatt's 2002/2003 Strategic Reward Survey

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CHRYSLER, MITSUBISHI PLAN AT LEAST 9 JOINT VEHICLE PROGRAMS. Chrysler Group and Mitsubishi Motors Corp. are integrating the development of platforms for at least nine small and midsize cars to be built and marketed by both companies.

The first joint program will be the 2005 Chrysler Neon and Mitsubishi Lancer, which currently are produced on four platforms. Replacements for the Dodge Stratus and Mitsubishi Galant will use a stretched version of the new Neon/Lancer platform.

Chrysler says the program could encompass at least nine vehicles by mid-decade representing more than 1 million units of production. The company isn't talking about the cost savings involved, but analysts have estimated vehicles in the program could share about one-third of their components.

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TAKEOVER UNDERWAY AT BRILLIANCE CHINA? Trading in shares of Brilliance China Automotive Holdings Ltd. was suspended without explanation yesterday for the second time in five weeks, prompting observers to suspect action in a bid by China's Liaoning provincial government to gain control of the company.

Last month Brilliance China acknowledged a bid by Liaoning to acquire a 39% stake currently owned by the Chinese Financial Education Development Foundation. The organization was once controlled by Yang Rong, the former Brilliance China CEO who was removed from the company's board three weeks ago. Yang is believed to be hiding in Los Angeles to avoid a Liaoning arrest warrant that accuses him of unspecified "economic crimes."

ELECTRIC VEHICLE GROUP RENAMED. The Electric Vehicle Association of the Americas begins 2003 with a new name: the Electric Drive Transportation Assn., reports *Automotive News* online. The name change reflects a shift in focus for the Washington, D.C., trade group from battery-powered electric vehicles to hybrid and fuel cell systems that use many of the same components.

TUESDAY'S CLOSING STOCKS

STOCK	SYMBOL	CLOSE	CHANGE
DOW		8,535.39	-92.01
NASDAQ		1,392.05	-8.28
American Axle	AXL	22.44	-0.04
ArvinMeritor	ARM	16.00	+0.23
Autoliv	ALV	21.06	-0.32
BorgWarner	BWA	50.18	+0.08
DaimlerChrysler	DCX	32.02	-0.92
Dana	DCN	12.00	-0.12
Delphi	DPH	8.14	-0.14
Eaton	ETN	75.85	0.00
EDS	EDS	19.16	-0.44
Ford	F	9.88	-0.06
General Motors	GM	36.66	-0.66
Gentex	GNTX	32.15	-0.03
Goodyear	GT	7.33	-0.15
Johnson Controls	JCI	79.44	-1.00
Lear	LEA	34.99	-0.06
Magna International	MGA	55.48	-0.12
TRW	TRW	51.62	-0.19
Visteon	VC	7.34	-0.06

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viewpoint

HELPING DISTRESSED SUPPLIERS

The auto industry, particularly its supply base, appears to be rebounding gradually from a period of unprecedented economic pressure. But suppliers continue to struggle with pricing pressures and tightened availability to credit markets. What should they do to survive and rebound? David Kuznick, a Deloitte & Touche partner, specializes in assisting management and financial stakeholders in such matters as the firm's automotive industry team leader within the Reorganization Services Group.

What are the primary sources of distress for auto suppliers?

Pricing pressure from the OEMs is the most obvious source, but it is not the only one. Many suppliers also are struggling with the aftermath of the industry's consolidation over the past 10 years. Buying other companies typically generates a high debt load and, when sales prices or volumes drop, can create problems servicing that debt.

Additionally, suppliers that do not diversify into multiple products are at risk. Single-product businesses don't have the ability to absorb the impact of reduced sales in the same way diversified companies can.

What are some of the warning signs for distress?

Obviously, a downward trend in operating performance is always an indication. However, consolidated results sometimes hide underperforming business lines. In many cases, poor results are triggered by specific events, which can either produce a temporary downturn or a permanent deterioration in the business.

Compliance with debt covenants also can provide a glimpse into the future. Occasional covenant violations can relate to temporary or non-recurring events, but consistent and significant misses from covenant targets typically highlight more serious problems.

Finally, companies that are unable to make debt service payments or become balance sheet insolvent are clearly in distress. Both instances are indicative of a company not having sufficient cash flow to meet its obligations, financially and operationally.

What are the ramifications when warning signs appear?

Reactions vary based on the party in interest and degree of distress. Lenders become concerned that their debt will not be paid in full and seek to perform analyses to determine short-term cash flows, operating forecasts and liquidation value. Lenders typically have the ability to assume ownership if certain events occur, thus they want to determine whether to refinance, liquidate or assume ownership.

Equity holders want to assess the alternatives that enable them to retain ownership while providing the company with a platform to succeed. Refinancing or restructuring scenarios may be performed at this point.

Vendors and customers want to ensure they are not left with unpaid balances, breaks in the supply chain or other operating commitments. They may seek replacement suppliers, install credit restrictions or slow down payments.

Employees are concerned for their livelihood and long-term benefit obligations. Competitors also may attempt to "poach" employees during this time.

How should issues be addressed and resolved?

Companies must react while there is still time and money. When companies file for bankruptcy, everyone loses. Companies need to stop the bleeding and commence turnaround activities, all while negotiating with interested parties on a regular basis and managing the core operations.

They should regularly update cash flow and financial forecasts, while generating reasonable long-term strategic plans. In addition, factors such as covenant compliance, borrowing base levels and immediate cost-saving opportunities should be identified and projected.

To stop the bleeding and commence turnaround activities, working capital must be managed aggressively, assets may be monetized and ways to increase profitability should be identified.

Methods to increase profitability can include cost rationalization, operational restructuring and divestiture of underperforming business lines. Refinancing existing debt agreements also may be considered.

What is your advice for top management?

Going into distress isn't necessarily the death knell of a company, but it's important to react quickly and objectively. Credibility with all interested parties is critical in developing the right solutions.

For learn more about managing companies in distress, please contact David Kuznick at (212) 436-3447 or dkuznick@deloitte.com.

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