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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002	**Commission file number 1-16091**

POLYONE CORPORATION
(Exact name of registrant as specified in its charter)

OHIO (State or other jurisdiction of incorporation or organization)	34-1730488 (I.R.S. Employer Identification No.)
Suite 36-5000, 200 Public Square, Cleveland, Ohio (Address of principal executive offices)	44114-2403 (Zip Code)
Registrant's telephone number, including area code	(216) 589-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No[ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [x] No[ ]

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 28, 2002, determined using a per share closing price on that date of $11.25, as quoted on the New York Stock Exchange, was approximately $864,219,544.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the designated parts of this Form 10-K: (1) Registrant's Annual Report distributed to shareholders for the fiscal year ended December 31, 2002, incorporated by reference into Parts I and II of this Form 10-K; and (2) Registrant's definitive proxy statement to be filed with the Commission, on or about March 28, 2003, pursuant to Regulation 14A and incorporated by reference into Part III of this Form 10-K. With the exception of the information specifically incorporated by reference, neither the Registrant's proxy statement nor the 2002 Annual Report to shareholders is deemed to be filed as part of this Form 10-K.

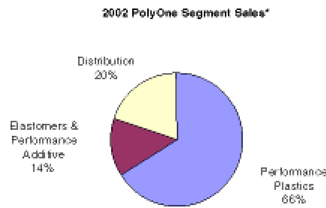
Except as otherwise stated, the information contained in this report is given as of December 31, 2002, the end of the Registrant's last fiscal year.

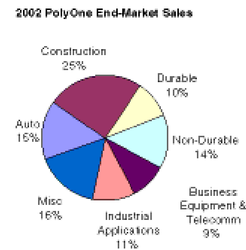
PART I

ITEM 1. BUSINESS

We are a leading global polymer services company with operations in thermoplastic compounds, specialty polyvinyl chloride (PVC) or vinyl resins, specialty polymer formulations, engineered films, color and additive systems, elastomer compounds and additives, and thermoplastic resin distribution. We provide value to our customers through our ability to link polymer technology and formulation with our manufacturing and supply chain processes. For the fiscal year ended December 31, 2002, we had sales of $2.5 billion, approximately 15% of which were from markets outside of North America.

PolyOne was formed on August 31, 2000 as a result of the consolidation of The Geon Company (Geon) and M.A. Hanna Company (Hanna). The formation of PolyOne is discussed in more detail in Notes A and F to the Consolidated Financial Statements in the Registrant's Annual Report distributed to shareholders for the fiscal year ended December 31, 2002. We operate within four business segments: Performance Plastics, Elastomers and Performance Additives, Distribution, and Resin and Intermediates.





** Excluding corporate, eliminations and other of $104.2 million*

Polymer Industry Overview:
Polymers are a class of organic materials that are produced directly or indirectly through the conversion of natural gas or crude oil components into monomers such as ethylene, propylene, butane, and styrene. These monomers are then polymerized into chains called polymers, or plastic resin, in its most basic form. Various additives are often combined with a base resin to create unique or enhanced properties necessary for end-use products. These combinations are generally referred to as plastic compounds. Plastic compounds have advantages over metals, wood, rubber and other traditional materials, which have and continue to result in their replacement across a wide spectrum of applications ranging from automobile parts to construction

materials due to plastic's low cost and comparatively better performance. Plastics have a reputation for durability, aesthetics, easy handling and high performance. We participate in the plastic compounding sector of the polymer industry through our Performance Plastics business segment.

Large petroleum companies produce a majority of the base resins because these commodity chemical manufacturers have direct access to the raw materials needed for production. Raw materials make up approximately 75% of the variable cost for the production of the base resin. Accordingly, the cost or material margin of a base resin fluctuates in tandem with the prices of raw materials used during production, primarily petroleum or natural gas and power or electricity. Through our equity interests in OxyVinyls and SunBelt, we have the economic benefits of a base resin producer for one of our major raw materials: polyvinyl chloride resin.

There are two primary categories of polymers: thermoplastics and thermosets. Thermoplastics, which make up about 90% of the resin market, are characterized by their ability to be reshaped repeatedly into new forms after the application of heat and pressure. Thermoplastics offer versatility and a wide range of applications. There are five major types of thermoplastics: polyethylene, polyvinyl chloride, polypropylene, polystyrene and polyester. Each type of thermoplastic has unique qualities and characteristics that make it appropriate for use in a particular product. Our Performance Plastics business segment, which accounts for approximately 66% of our total sales, is primarily comprised of compounded thermoplastics. In addition, our Distribution business segment, which accounts for approximately 20% of our total sales, is a distributor of a wide range of thermoplastic resins and compounds.

Thermoplastic resins are found in numerous end-use products and in a variety of markets, including packaging, building and construction, transportation, furniture and furnishings, consumer and institutional products, electrical, adhesives, inks and coatings. Each category of thermoplastic resin has unique characteristics (such as flexibility, strength or durability) suitable for incorporation into a particular end product. For example, the packaging industry, which is the largest consumer of plastics, requires plastics that can help keep food fresh and free of contamination, while providing a variety of options for product display and offering advantages in terms of weight, energy, and user friendliness. In the building and construction industry, the second largest consumer of plastic, plastic has provided an economic and energy efficient replacement for traditional building materials in piping applications, building siding, flooring, insulation, windows and doors and a growing list of both structural and interior or decorative uses. In the transportation industry, plastic has proven to be durable, lightweight, and corrosion resistant while offering fuel savings, design flexibility and high performance to designers facing today's complex transportation needs.

A thermoset polymer is a polymer that solidifies or "sets" irreversibly when heated. Thermosets are valued for their durability, resilience and strength. Examples of thermoset polymers are rubber, polyurethanes, unsaturated polyesters and epoxies. Our Elastomers and Performance Additives business segment, which accounts for approximately 14% of our total sales, participates in the thermoset compounding market. Thermosets are used in automotive applications, building and construction and a wide variety of consumer products. Typical applications include automotive seals, belts, and hoses for the automotive industry and electrical insulation, caskets and seals for the construction and manufacturing industries.

Independent Thermoplastic Compounding Industry*:

The independent compounding industry is highly fragmented. In 2001, the independent compounding industry had about 450 competitors. In 2001, we were the largest independent plastic compounder in the United States with approximately 13% share of the market. The following chart summarizes the U.S. plastic compounding market:

Note: GE Plastics' position does not reflect the 2002 acquisition of LNP Engineering Plastics, Inc.

According to Frost & Sullivan, total revenues of the U.S. plastic compounding market were estimated to be approximately $10.4 billion in 2002 with an expected annual growth rate of 4.4% for the period 2001 through 2007. By 2007, revenues in the U.S. plastic compounding market are expected to grow to $13.0 billion. It is estimated that the U.S. plastic compounding market is approximately 40% of the worldwide plastic compounding market.

** According to the 2002 U.S. Plastic Compounding Markets Study (7961-37) by Frost & Sullivan, portions of which are reprinted with permission from Frost & Sullivan.*

Independent Thermoset/Elastomer Compounding Industry:

Our Elastomers and Performance Additives business segment participates in the independent thermoset compounding industry. Thermosets are valued for their durability, resilience and strength. Examples of thermoset polymers are rubber, polyurethanes, unsaturated polyesters and epoxies. We operate mostly in the non-tire rubber compounding markets. We currently estimate that consumption of industrial (non-tire) rubber compounds for the NAFTA region is approximately 8 billion pounds. We estimate this market has historically grown at the same rate as the overall manufacturing economy. Within the industrial market, rubber parts manufacturers compound approximately 6 billion pounds for captive/in-house consumption and the remaining 2 billion pounds is compounded by independent merchant custom compounders. Within the custom compounding industry, one of the largest growth opportunities is through the outsourcing of production by rubber parts manufacturers who currently compound their own rubber in-house. This outsourcing has traditionally been greatest during periods of high economic growth when compounding capacity of these producers is stretched. Another area of growth is in high-end specialty elastomers, like fluoroelastomers, that exhibit a higher temperature threshold, greater chemical resistance and superior wear performance. Within these markets, PolyOne is the largest custom compounder in North America. Other custom compounders include Airboss of America Corp., Dyna-Mix, Inc., Teknor Apex Company, and the Thona Group.

Thermoplastic Resin and Compound Distribution:

In thermoplastic resin and compound distribution, we believe that we are the second largest independent thermoplastic resin distributor in North America. We compete against the General Polymers division of Ashland Distribution Company, which is the leading independent resin distributor in North America, and

other smaller regional distributors. Growth in the thermoplastic resin and compound distribution market is directly correlated to growth in the market for base polymer resins.

PolyOne Business Segments:

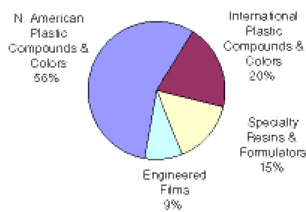
We operate within four business segments: Performance Plastics, Elastomers and Performance Additives, Distribution, and Resin and Intermediates. Additional information regarding the Registrant's business segments is incorporated by reference to Note T to the Consolidated Financial Statements in the Registrant's Annual Report distributed to shareholders for the fiscal year ended December 31, 2002.

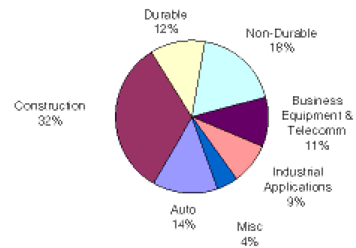
Performance Plastics:

Our Performance Plastics business segment is a leading independent merchant compounder of plastics to the specifications of manufacturers of plastic products throughout North America and Europe, with a growing presence in Asia. We engage in the custom compounding of plastic materials to the specifications of manufacturers of molded and extruded plastic products. We are also a leading North American manufacturer of custom formulated colorants in the form of color concentrates, liquid dispersions, dry colorants and additives for customers in the plastic industry, and the leading North American producer of specialty vinyl resins. Our formulator operations process dispersion resins along with different additives to produce liquid or solid plastisol compounds. In addition, we produce formulations using urethanes and latex polymers. Through our engineered films operations, we also process flexible compounds into rolls of various-gauge films for use in automotive interior applications, construction, industrial and consumer markets.

For the fiscal year ended December 31, 2002, our Performance Plastics business segment had sales of $1.7 billion, representing 66% of our total sales. During 2002, we received from all of our Performance Plastics business segment equity affiliates $10.4 million of cash from dividends and distributions.

Included in the Performance Plastics business are four product groups; North American Plastic Compounds and Colors, International Plastic Compounds and Colors, Specialty Resins and Formulators, and Engineered Films. Our Performance Plastics business segment has substantial and growing market positions in Europe and Asia.





North American and International Plastic Compounds and Colors:

North American and International Plastic Compounds and Colors consist of three product subgroups: vinyl compounds, colors and additives, and engineered materials.

Vinyl Compounds. Vinyl, or polyvinyl chloride, is an extremely versatile plastic. Vinyl is the only plastic that can be made thin and flexible enough for intravenous solution bags, yet rigid and tough enough for

windows and computer housings. Because of this versatility, vinyl has become one of the most widely used plastics and is utilized in a whole range of applications. Our vinyl compounds combine polyvinyl chloride resins with a broad range of additives that offer product versatility, particularly when fire resistance, chemical resistance or weatherability is required. We are the leading manufacturer of vinyl compounds in North America. In 2002, this product subgroup accounted for approximately 37% of our Performance Plastics business segment's sales.

Colors and Additives. Color concentrates are plastic compounds that contain a high concentration of color pigments or additives predispersed in a polymer carrier medium and supplied in pellet, liquid, flake or powder form. Concentrates are designed for use in appropriate quantities with the base resin mix so that the correct color or additive performance is achieved. Normally, the concentrate is added at rates of 1% to 10% of the base resin mix. Additive concentrates include a wide variety of products, but are commonly categorized by the function performed, such as UV stabilizers, slip/antiblock, antistat, blowing agent, antioxidant, lubricant, and stabilizers.

Our color and additive concentrates provide flexibility to plastic processors who prefer to create multiple color effects or enhance the performance of their own base polymers. Our colors and additives for thermoplastics are used throughout the plastic industry, particularly in the packaging, automotive, consumer, pipe, wire and cable industries. Our colors and additives are also incorporated into other end products such as stadium seating, toys, houseware, vinyl siding, pipe, food packaging, and medical packaging.

In 2001, we were the second largest producer of color concentrates in North America. In 2002, this product subgroup accounted for approximately 20% of our Performance Plastics business segment's sales.

Engineered Materials. Our engineered materials consist of reinforced and filled compounds and thermoplastic elastomer compounds. With our compounding expertise, we have the ability to expand the performance range and structural properties of traditional engineered thermoplastics. We combine our knowledge of base polymers, lubricants, fillers and reinforcements as well as a wide range of functional additives to enable us to tailor our compounds to meet our customers' unique application requirements. Our compounds incorporate commodity resins like polyethylene and polypropylene, engineering resins like nylon, polycarbonate, polyesters and other high performance resins.

In addition, we have a broad product line of thermoplastic elastomer compounds, including thermoplastic olefins, thermoplastic vulcanizates and styrene block copolymers. In 2002, this product subgroup accounted for approximately 19% of our Performance Plastics business segment's sales.

Specialty Resins and Formulators:
We are the leading North American producer of specialty vinyl resins. Specialty resins represent approximately 10% of the PVC resin market and are usually compounded in a liquid form for flexible product applications. These resins are marketed on service and performance as the resins are largely customized to specific end use applications. Our specialty vinyl resins are used in end products such as vinyl flooring, carpeting, automotive instrument and door panels, coated fabrics, medical examination gloves and foam products. Approximately 9% of our specialty vinyl resins are used by our formulators business as one of its primary raw materials.

Formulator products consist primarily of liquid systems with a base resin comprised of specialty polyvinyl chloride resins, polyurethane or latex. We custom compound and manufacture PVC inks and powders, polyurethane, latex, specialty additives and colorants that meet the specific needs of our customers' applications. Examples of applications for our formulator products include inks for textiles in the consumer industry; armrests, headrests and oil filters in the automotive industry; coil coatings, sheet vinyl and carpet backing in the construction industry; and decals, coatings and tool handles in the industrial industry.

In 2002, the Specialty Resins and Formulators product group accounted for approximately 15% of our Performance Plastics business segment's sales.

Engineered Films:

We compound and process various polymers into rolls of film of various gauge thickness and widths for use in the automotive, industrial and consumer goods industries. Our films for the automotive industry include a broad range of engineering vinyl and thermoplastic olefin films, compact sheet, and laminates that are used in instrument and door panels, air bag doors and glove compartment panels. Our custom films consist of a broad range of vinyl and olefin alloy calendered films, sheeting and laminates formulated to meet the processing and performance needs of our customers, and are used in end-products such as binders, check-book covers, in-ground pool liners, flooring, medical bloodbags, wall coverings and wood laminates.

In 2002, the Engineered Films product group accounted for approximately 9% of our Performance Plastics business segment's sales.

Elastomers and Performance Additives

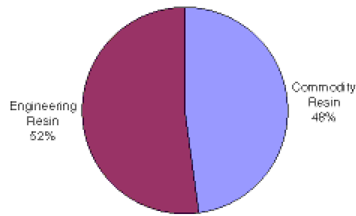
We believe our Elastomers and Performance Additives (E&PA) business segment is the leading North American independent merchant compounder of customized, high performance elastomer (rubber) materials for automotive and industrial applications. For the fiscal year ended December 31, 2002, our Elastomers and Performance Additives business segment had sales of $363.9 million, representing 14% of our total sales.

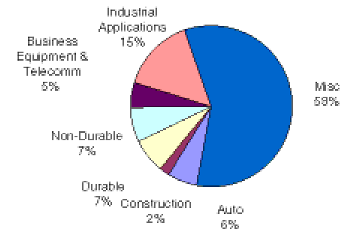
We specialize in developing rubber compound formulations for rubber parts manufacturers and strive to capture outsourcing business from companies that currently compound rubber in-house. Our rubber compounding products are most commonly used in the manufacture of hoses, belts, seals and gaskets for the automotive industry in addition to sealants and roofing for industrial and construction applications. We also provide specialty products consisting of performance additives, rolls and high performance elastomers. These products are focused on applications requiring performance characteristics such as higher temperature threshold, greater chemical resistance and superior wear performance.

Distribution:

Our Distribution business segment is the second largest independent North American distributor of resins and plastic compounds. We are a distributor of up to 3,500 grades of engineering and commodity resins and plastic compounds from approximately 13 major suppliers, including our own vinyl compounds. We purchase bulk quantities of plastic base resins, such as polyethylene, polypropylene, polystyrene, and polyvinyl chloride, and resell them in truckload and less-than-truckload amounts to more than 4,700 customers nationwide. Our supplier base includes the leaders in the resin business such as Atofina, Basell,

BP Amoco, Bayer, Dow, DuPont, Eastman, Huntsman and Nova Chemicals. These products are sold to custom molders and extruders who convert them into plastic products sold to a number of different industries and end-use markets. We currently operate over 30 stocking locations, including 10 repackaging plants, across North America that are strategically located in proximity to our customers, which provides us with a competitive advantage over other regional plastic distributors. For the fiscal year ended December 31, 2002, our Distribution business segment had sales of $519.7 million, representing 20% of our total sales.





***Resin and Intermediates*:**

The results of our Resin and Intermediates business segment are reported on an equity income basis and consist primarily of our 24% equity interest in Oxy Vinyl, LP (OxyVinyls) and our 50% equity interest in SunBelt Chlor-Alkali Partnership (SunBelt). OxyVinyls is a partnership with Occidental Chemical Corporation, and SunBelt is a partnership with Olin Corporation. OxyVinyls is North America’s second largest and the world’s third largest producer of PVC resin. In 2002, OxyVinyls had capacity of approximately 4.6 billion pounds of PVC resin, 5.0 billion pounds of vinyl chloride monomer (an intermediate chemical in the production of PVC), 560 thousand tons of chlorine and 620 thousand tons of caustic soda. In 2002, SunBelt had capacity of approximately 250 thousand tons of chlorine and 275 thousand tons of caustic soda. Most of the chlorine manufactured at OxyVinyls and SunBelt is used for internal consumption by OxyVinyls in the production of PVC resin. Caustic soda is sold on the merchant market to customers in industries such as the pulp and paper, chemical, construction and consumer products.

In addition to providing us with a secure and high quality supply of PVC resin, our Resin and Intermediates business segment provides us with virtual backward integration for one of our major raw materials, PVC resins. First, our supply of PVC resin and vinyl monomer from OxyVinyls is at competitive prices based on long-term supply contracts between OxyVinyls and our businesses. Second, our equity investment in OxyVinyls provides somewhat of a natural hedge against increased raw material prices to the extent OxyVinyls is able to pass on increased raw material costs to its other customers. Finally, the equity position in chlorine and caustic soda through both OxyVinyls and SunBelt provides economic integration to the chlorine chain.

For the fiscal year ended December 31, 2002, we received from all of our Resin and Intermediates business segment equity affiliates $20.2 million of cash from dividends, distributions and returns of investments net of new investments.

Competition:

The production of compounded plastics and the manufacture of custom formulated color and additives systems for the plastics industry is highly competitive, with product quality, service and price to customers

being principal factors affecting competition. PolyOne believes it is a leading independent compounder of plastics in North America and Europe and one of the leading producers of custom formulated color and additive systems in the United States and Europe.

The custom compounding of rubber materials and the manufacture of rubber colorants and additives are highly competitive with product quality, service and price to customers being principal factors affecting competition. PolyOne believes it is a leading independent custom compounder of rubber in North America.

The distribution of polymer resin is highly competitive, with product quality, service and price to customers being principal factors affecting competition. PolyOne believes it is one of the leading independent distributors of plastic resins in North America.

Raw Materials:
In PolyOne's Performance Plastics business segment, the primary raw materials are PVC resin, vinyl chloride monomer (VCM), other resins, plasticizers, inorganic and organic pigments, and chemicals, all of which are in adequate supply. PolyOne is a party to long-term supply contracts with OxyVinyls, under which the majority of PolyOne's PVC resin and all of its VCM requirements will be supplied. The supply contracts have initial terms which expire in 2013 and have provisions for renewal after the initial contract term. PolyOne believes the supply contracts should assure availability of PVC resin and VCM, technical development and support and competitively priced PVC resin and VCM. PolyOne further believes that the pricing under these supply contracts provides PVC resin at a competitive cost to PolyOne.

In PolyOne's Elastomers and Performance Additives business segment, the primary raw materials are natural and synthetic rubbers, resins and chemicals, all of which are available in adequate supply.

Patents and Trademarks:
PolyOne owns numerous patents and trademarks, which are important in that they protect inventions and product names against infringement by others and thereby enhance PolyOne's position in the marketplace. The patents vary in duration of up to 20 years, and the trademarks have an indefinite life that is based upon continued use.

Research and Development:
PolyOne has developed substantial research and development capability. PolyOne's efforts are devoted to (1) developing new products to satisfy defined market needs, (2) providing quality technical services to assure the continued success of its products for its customers' applications, (3) providing technology for improvements to its products, processes and applications, and (4) providing support to its manufacturing plants for cost reduction, productivity and quality improvement programs. PolyOne operates a research and development center that supports its compounding and specialty resin operations. The laboratory is equipped with state-of-the-art analytical, synthesis, polymer characterization and testing equipment and pilot plants and polymer compounding operations that simulate specific production processes for rapid translation of new technology into new products.

PolyOne incurred costs of $19.4 million in 2002, $18.8 million in 2001 and $21.4 million in 2000 for product research and product development. In 2003, PolyOne expects spending to show a small increase over 2002.

Methods of Distribution:
PolyOne's Performance Plastics, Elastomers and Performance Additives and Distribution business segments primarily sell products through their direct sales personnel. The Performance Plastics business segment supplements its direct sales personnel with distributors, including PolyOne Distribution, and/or commissioned sales agents for various products and geographic areas. PolyOne's products are primarily transported to customers using truck carriers, with some customer product pick-ups at its operating facilities in all three of these business segments. In addition, PolyOne's Performance Plastics business segment ships products to some customers using railroad cars.

Employees:
As of December 31, 2002, PolyOne had approximately 7,600 employees.

Environmental, Health and Safety:
PolyOne is subject to various environmental laws and regulations concerning production, use and sale of chemicals, emissions to the air, discharges to waterways and other releases of materials into the environment; the generation, handling, storage, transportation, treatment and disposal of waste materials; or otherwise relating to the protection of the environment. PolyOne endeavors to ensure the safe and lawful operation of its facilities in manufacturing and distribution of products and believes it is in material compliance with applicable laws and regulations.

PolyOne maintains a disciplined environmental and occupational safety and health compliance program and conducts periodic internal and external regulatory audits at its domestic plants in order to identify and categorize potential environmental exposures, including compliance issues, and measures to address them. This is an effort that has required and may continue to require process or operational modifications and the installation of pollution control devices and cleanups. PolyOne incurred environmental expense of $3.7 million in 2002, $3.9 million in 2001 and $2.2 million in 2000.

PolyOne believes that compliance with current governmental regulations at all levels will not have a material adverse effect on its financial condition. However, the risk of additional costs and liabilities is inherent in certain plant operations and certain products produced at the plants, as is the case with other companies involved in the plastics PVC industry. PolyOne cannot assure that it will not incur additional costs and liabilities in the future. Other developments, such as increasingly strict environmental, safety and health laws, regulations and related enforcement policies, discovery of unknown conditions, and claims for damages to property, persons or natural resources resulting from plant emissions or products could also result in additional costs and liabilities to PolyOne.

A number of foreign countries and domestic local communities have enacted, or have under consideration, laws and regulations relating to the use and disposal of plastic materials. Widespread adoption of these laws and regulations, or public perception, may have an adverse impact on plastic materials. Although many of PolyOne’s major markets are in durable, longer-life applications that could reduce the impact of any such environmental regulation, PolyOne cannot assure that more stringent regulation of use and disposal of plastics would not have an adverse effect on its business.

PolyOne conducts a comprehensive occupational safety and health program and believes it is in material compliance with applicable requirements.

PolyOne has been notified by federal and state environmental agencies and by private parties that it may be a potentially responsible party in connection with the investigation and remediation of several environmental sites. While government agencies assert that potentially responsible parties are jointly and severally liable at these sites, in PolyOne’s experience, interim and final allocation of liability costs are generally made based on the relative contribution of waste. However, where such allocations of costs based on relative contribution of waste have been made, PolyOne cannot assure that its allocation will not be increased due to the failure of other relevant third parties to pay their share of such costs. In addition, PolyOne conducts investigations and remediation at several of its active and inactive facilities, and has assumed responsibility for environmental liabilities based on pre-1993 operations at sites formerly owned or operated by PolyOne or its predecessors. PolyOne believes that its potential continuing liability with respect to such sites will not have a material adverse effect on its consolidated financial position, results of operations or cash flows. In addition, PolyOne initiates corrective and preventive environmental projects of its own at its operations. Based on current information and estimates prepared by PolyOne’s environmental engineers and consultants, PolyOne, at December 31, 2002, had accruals totaling $52.3 million to cover probable future environmental expenditures relating to previously contaminated sites. The accrual represents PolyOne’s best estimate within its range of estimated costs associated with probable remediation, based upon information and

technology currently available and PolyOne's view of the most likely remedy. Depending upon the results of future testing, the ultimate remediation alternatives undertaken, changes in regulations, new information and other factors, it is possible that PolyOne could incur costs in excess of the accrual at December 31, 2002. PolyOne's estimate of the liability may be revised as new regulations or technologies are developed or additional information is obtained.

Available Information:

Our Internet address is http://www.polyone.com. PolyOne makes available, free of charge, on our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnishes pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after PolyOne electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

Cautionary Note Regarding Forward-Looking Statements:

In the above "Business" section, statements that are not reported financial results or other historical information are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give our current expectations or forecasts of future events, and are not guarantees of future performance. They are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective changes in raw material costs or product pricing or product demand, future performance or results of current and anticipated market conditions and market strategies, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results. Actual results could differ materially from those expressed in or implied by these statements based on a variety of factors, which are incorporated by reference to page 45 of PolyOne's 2002 Annual Report distributed to shareholders for the fiscal year ended December 31, 2002 under the caption "Cautionary Note on Forward-Looking Statements."

ITEM 2. PROPERTIES

As of December 31, 2002, PolyOne, which is headquartered in Cleveland, Ohio, operated facilities in the United States and foreign countries. Substantially all of PolyOne's facilities are owned. During 2002, PolyOne generally made effective use of its productive capacity at its principal facilities. PolyOne believes that the quality and productive capacity of its facilities are sufficient to maintain its competitive position for the foreseeable future. The charts below list the principal facilities of PolyOne's business segments.

Performance Plastics Facilities:

Vinyl Compounding	Specialty Dispersion Resin	Plastisol Formulators	Engineered Films
Avon Lake, Ohio	Henry, Illinois	Bolton, England	Burlington, New Jersey
Long Beach, California	Pedricktown, New Jersey	Kennesaw, Georgia	Lebanon, Pennsylvania
Louisville, Kentucky		Los Angeles, California	Winchester, Virginia
Niagara Falls, Ontario, Canada		Massillon, Ohio	Yerington, Nevada
Orangeville, Ontario, Canada		North Baltimore, Ohio	
Pasadena, Texas		St. Louis, Missouri	
Plaquemine, Louisiana		Sullivan, Missouri	
St. Remi de Naperville, Quebec, Canada		Sussex, Wisconsin	
Terre Haute, Indiana		Widnes, England	
Valleyfield, Quebec, Canada		Hyde, England	
Cartagena, Colombia (joint venture)		Dartford, England	
Melbourne, Australia (joint venture)		Newton, Aycliffe, England	

Color Concentrates and Additives	Engineered Materials
Broadview Heights, Ohio	Macedonia, Ohio
Glendale, Arizona	Dyersburg, Tennessee
Vonore, Tennessee	Bethlehem, Pennsylvania
Suwanee, Georgia	Seabrook, Texas
Florence, Kentucky	Gaggenau, Germany
Elk Grove Village, Illinois	Barbastro, Spain
Fort Worth, Texas	Jurong, Singapore
Lehigh, Pennsylvania	Suzhou, China
Norwalk, Ohio	Melle, Germany
St. Peters, Missouri	Istanbul, Turkey (joint venture)
Toluca, Mexico	Dortmund, Germany
Assesse, Belgium	
Tossiat, France	
Bendorf, Germany	
Angered, Sweden	
Manchester, England	
Pudong (Shanghai), China	
Glostrup, Denmark	
Bangkok, Thailand (joint venture)	
Gyor, Hungary	

Resin and Intermediates Facilities:

OxyVinyls joint venture — various locations in North America
SunBelt joint venture — McIntosh, Alabama
Welvic Australia Pty Ltd. joint venture — various locations in Australia

Elastomers and Performance Additives Facilities:

Burton, Ohio
Jonesborough, Tennessee
DeForest, Wisconsin
Queretaro, Mexico
Kennedale, Texas
Dyersburg, Tennessee
Wynne, Arkansas
Santa Fe Springs, California

Distribution Facilities:

Lemont, Illinois
Ayer, Massachusetts
Massillon, Ohio
Rancho Cucamonga, California
Statesville, North Carolina
Denver, Colorado
Chesterfield Township, Michigan
Eagan, Minnesota
Hazlewood, Missouri
Grand Prairie, Texas
Mississauga, Ontario, Canada
Mexico — various locations

ITEM 3. LEGAL PROCEEDINGS

In addition to the matters regarding the environment described above under the heading "Environmental, Health and Safety," PolyOne is involved in various pending or threatened claims, lawsuits and administrative proceedings, all arising from the ordinary course of business concerning commercial, product liability, employment and environmental matters, which seek remedies or damages. In addition, PolyOne has been named in several lawsuits involving multiple claimants and defendants relating to alleged asbestos exposure in the past by, among others, workers and their families at plants owned by PolyOne or its predecessors or on board ships owned or operated by PolyOne or its predecessors. PolyOne believes that any liability that may be finally determined should not have a material adverse effect on its financial condition taken as a whole.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2002.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

(Included Pursuant to Instruction 3 to paragraph (B) of Item 401 of Regulation S-K)

The table below lists information as of March 28, 2003, as to each executive officer of PolyOne, including his or her position with PolyOne as of that date and other positions held by him or her for at least the past five years. The executive officers are elected by the Board of Directors to serve one-year terms.

V. Lance Mitchell
Age: 43

Group Vice President, Global Plastics, January 2003 to date. Group Vice President, Plastic Compounds and Colors, September 1, 2000 to January 2003. Vice President and General Manager, Compounds, The Geon Company, May 1997 to August 31, 2000. Business Director, Compounds, The Geon Company, November 1993 to May 1997.

John E. Quinn
Age: 55

Vice President and General Manager, Elastomers and Performance Additives, September 1, 2000 to date. President, M.A. Hanna Rubber Compounding, May 1998 to August 31, 2000. General Manager Noryl® Resins Business, GE Plastics (plastics resins), a business unit of General Electric Company, 1991 to May 1998.

Wendy C. Shiba
Age: 52

Chief Legal Officer, November 15, 2001 to date and Vice President and Secretary, December 5, 2001 to date. Vice President, Bowater Incorporated (pulp and paper), 1997 to November 2001, and Secretary and Assistant General Counsel, 1993 to November 2001.

Kenneth M. Smith
Age: 48

Chief Human Resources Officer, January 2003 to date and Vice President and Chief Information Officer, September 1, 2000 to date. Vice President, Information Systems, The Geon Company, August 1999 to August 31, 2000 and Chief Information Officer, August 1997 to August 1999. Director of Information Systems, The Geon Company, 1993 to August 1997.

Thomas A. Waltermire
Age: 53

Chairman of the Board, President and Chief Executive Officer, September 1, 2000 to date. Chairman, The Geon Company, August 1999 to August 31, 2000, and Chief Executive Officer, May 1999 to August 31, 2000. President, The Geon Company, February 1998 to May 1999 and Executive Vice President and Chief Operating Officer, May 1997 to February 1998. Vice President and Chief Financial Officer, The Geon Company, 1993 to May 1997.

W. David Wilson
Age: 49

Vice President and Chief Financial Officer, September 1, 2000 to date. Vice President and Chief Financial Officer, The Geon Company, May 1997 to August 31, 2000. Director of Business Management — Resins, The Geon Company, 1995 to May 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

(a) PolyOne's common stock, $.01 par value per share, is listed on the New York Stock Exchange. The information required under this item is incorporated by reference to the table on page 42 of PolyOne's 2002 Annual Report distributed to shareholders for the fiscal year ended December 31, 2002 under the caption "Quarterly Data."

(b) As of March 17, 2003, there were approximately 3,443 holders of record of PolyOne's common stock.

(c) PolyOne has paid consecutive quarterly dividends of $.0625 per share of common stock during 2000 (since August 31, 2000, its formation date), 2001 and 2002. Effective with the first quarter of 2003, PolyOne will suspend payment of its quarterly dividend. Future declarations of dividends on common stock are discretionary with the Board of Directors, and the declaration of any dividends will depend upon, among other things, earnings, capital requirements and the Company's financial condition.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is incorporated by reference to page 43 of PolyOne's 2002 Annual Report distributed to shareholders for the fiscal year ended December 31, 2002 under the caption "Selected Financial Data."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is incorporated by reference to the caption "Management's Analysis" on pages 6 through 12, 15 through 17, and 19 through 21 of PolyOne's 2002 Annual Report distributed to shareholders for the fiscal year ended December 31, 2002. This report contains statements concerning trends and other forward-looking information affecting or relating to PolyOne and its industry that are intended to qualify for the protections afforded "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those expressed in or implied by these statements based on a variety of factors, which are incorporated by reference to page 45 of PolyOne's 2002 Annual Report distributed to shareholders under the caption "Cautionary Note on Forward-Looking Statements."

Recent Developments: On March 24, 2003, PolyOne announced that Moody's Investors Service downgraded the senior debt of PolyOne to B2 from Ba3 on March 21, 2003. A provision of PolyOne's current receivables sale facility specifies that with notice, the facility can be terminated if PolyOne's senior debt is rated below BB- by Standard & Poor's or below Ba3 by Moody's Investors Service. The Agent representing the purchasers under the receivables sale facility has waived this provision through June 30, 2003. PolyOne has begun negotiations to replace the existing receivables sale facility with a new facility that would have no debt ratings trigger. Although there can be no assurance, PolyOne expects to have the new receivables sale facility in place before the end of the second quarter of 2003. In addition, on March 24, 2003, Standard & Poor's announced that it lowered the rating of PolyOne's senior debt to BB- from BB+.

On March 26, 2003, PolyOne announced we will exit our engineered films plant in Yerington, Nevada which employs approximately 85 people. If we are unable to quickly sell the facility as an ongoing operation, it would be closed by the end of the second quarter of 2003. PolyOne projects that closing the Yerington plant would yield annualized pre-tax earnings improvement of $1.8 million because reduced plant costs exceed the variable margin on exited sales. Further, we would monetize an estimated $5 million of commercial working capital and property and building. Restructuring costs are projected to total $6.3 million, of which $2.8 million would be cash closure costs. We estimate the earnings charge would be approximately $4.5 million in the first quarter of 2003 and approximately $1.5 million in the second quarter of 2003.

ITEM 7A. QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

The information required by this item is incorporated by reference to the captions "Concentrations of Credit Risk" on page 24, "Derivative Financial Instruments" on pages 24 and 25, "Financial Instruments" on page 41 and "Market Risk Disclosures" on page 21 of PolyOne's 2002 Annual Report distributed to shareholders for the fiscal year ended December 31, 2002. This information contains statements concerning trends and other forward-looking information affecting or relating to PolyOne and its industry that are intended to qualify for the protections afforded "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those expressed in or implied by these

statements based on a variety of factors, which are incorporated by reference to page 45 of PolyOne’s 2002 Annual Report distributed to shareholders for the fiscal year ended December 31, 2002 under the caption “Cautionary Note on Forward-Looking Statements.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated by reference to pages 13, 14, 18 and 22 through 41 of PolyOne’s 2002 Annual Report distributed to shareholders for the fiscal year ended December 31, 2002.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding PolyOne’s directors is incorporated by reference to the information contained in PolyOne’s Proxy Statement to be filed on or about March 28, 2003 with respect to the 2003 Annual Meeting of Shareholders (2003 Proxy Statement). Information concerning executive officers is contained in Part I of this Report under the heading “Executive Officers of the Company.”

Information regarding Section 16(a) beneficial ownership reporting compliance is incorporated by reference to the material under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” in PolyOne’s 2003 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information regarding executive compensation is incorporated by reference to the information contained in PolyOne’s 2003 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information regarding security ownership of certain beneficial owners and management is incorporated by reference to the information contained in PolyOne's 2003 Proxy Statement.

The following table provides information about PolyOne Corporation's equity compensation plans (other than qualified employee benefits plans and plans available to shareholders on a pro rata basis) as of December 31, 2002.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	12,856,657	$12.16	3,698,487(1)
Equity compensation plans not approved by security holders(2)	197,006	10.48	162,234
Total	13,053,663		3,860,721

(1) In addition to options, warrants and rights, each of the 1993 Incentive Stock Plan, the 1995 Incentive Stock Plan, the 1998 Interim Stock Awards Plan, the 1999 Incentive Stock Plan, the Long-Term Incentive Plan and the 2000 Stock Incentive Plan authorize the issuance of restricted stock, performance shares and/or deferred shares. Each of the 1999 Incentive Stock Plan, the Long-Term Incentive Plan and the 2000 Stock Incentive Plan has a separate sub-limit for the total number of shares that may be issued as one or more of these types of awards. The sub-limits are 400,000 restricted shares under the 1999 Incentive Stock Plan, 750,000 restricted and deferred shares and 1,500,000 performance shares under the Long-Term Incentive Plan, and 1,000,000 restricted, performance, and deferred shares under the 2000 Stock Incentive Plan.

(2) The 1998 Interim Stock Award Plan was adopted by the Board of Directors of one of PolyOne's predecessors in 1998. The Plan provides for awards in the form of stock options, restricted stock, stock equivalent units, stock appreciation rights, performance shares, and other stock and performance-based incentives. Key employees of PolyOne and its affiliates are eligible for awards. Non-employee directors are not eligible for awards. The Compensation Committee of the Board of Directors administers the Plan and selects award recipients. The maximum number of shares available for awards under the Plan is 375,574. The Compensation Committee has the power to adjust the maximum number of shares available under the Plan and exercise price of outstanding awards in the event of mergers, consolidations and other corporate transformations, stock dividends, stock splits and other non-cash distributions to shareholders. Unless otherwise determined by the Board of Directors, upon a change in control of PolyOne, all options and rights under the Plan become fully exercisable and all restrictions and conditions applicable to share awards are deemed satisfied.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information regarding certain relationships and related transactions is incorporated by reference to the information contained in PolyOne's 2003 Proxy Statement.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures: Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-14(c) and 15d-14(c) under the Exchange Act, as of a date (the "Evaluation Date") within 90 days prior to the filing date of this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) Changes in internal controls: There were no significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) and (2) and (d) — The response to these portions of Item 15 are submitted as a separate section of this Report beginning on page F-1 of this Report.

(a)(3) and (c) — An index of Exhibits filed as part of this Report is located beginning on page I-1 of this Report.

(b) Reports on Form 8-K filed in the Fourth Quarter of 2002:

- Form 8-K filed on October 15, 2002 filing a press release issued on October 11, 2002, whereby PolyOne announced that third quarter 2002 anticipated earnings before special charges should be within the range of current Thomson First Call estimates when released.
- Form 8-K filed on November 6, 2002 filing a press release issued on October 30, 2002, whereby PolyOne announced third quarter 2002 earnings.
- Form 8-K filed on December 4, 2002 filing a press release issued on December 4, 2002, whereby PolyOne announced the sale of its 70% interest in So.F.teR S.p.A.
- Form 8-K filed on December 18, 2002 filing a press release issued on December 17, 2002, whereby PolyOne reported that it had reduced its earnings outlook for the fourth quarter of 2002.
- Form 8-K filed on December 23, 2002 filing a press release issued on December 20, 2002, whereby PolyOne reported that it had reached an agreement to sell its 51% interest in Techmer PM, LLC to TPM Holdings LP, which holds the remaining 49% interest.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 25, 2003.

POLYONE CORPORATION

By: /s/ W. David Wilson
W. David Wilson
Vice President and Chief Financial Officer
(Authorized Officer and Principal Financial Officer)

By: /s/ Gregory P. Smith
Gregory P. Smith
Corporate Controller and Assistant Treasurer
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, as of March 25, 2003.

Signature	Title
/s/ Thomas A. Waltermire Thomas A. Waltermire	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ W. David Wilson W. David Wilson	Vice President and Chief Financial Officer (Authorized Officer and Principal Financial Officer)
/s/ Gregory P. Smith Gregory P. Smith	Corporate Controller and Assistant Treasurer (Principal Accounting Officer)
/s/ J. Douglas Campbell J. Douglas Campbell	Director
/s/ Carol A. Cartwright Carol A. Cartwright	Director

/s/ Gale Duff-Bloom Gale Duff-Bloom	Director
/s/ Wayne R. Embry Wayne R. Embry	Director
/s/ Robert A. Garda Robert A. Garda	Director
/s/ Gordon D. Harnett Gordon D. Harnett	Director
/s/ David H. Hoag David H. Hoag	Director
_______________ D. Larry Moore	Director
/s/ Farah M. Walters Farah M. Walters	Director

CERTIFICATION

I, Thomas A. Waltermire, Chairman of the Board, President and Chief Executive Officer of PolyOne Corporation (“registrant”), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the “Evaluation Date”); and

   (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and

6. The registrant’s other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 25, 2003

/s/ Thomas A. Waltermire
Thomas A. Waltermire
Chairman of the Board, President
and Chief Executive Officer

CERTIFICATION

I, W. David Wilson, Vice President and Chief Financial Officer of PolyOne Corporation (“registrant”), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    (b) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the “Evaluation Date”); and

    (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

    (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

    (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and

6. The registrant’s other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 25, 2003

/s/ W. David Wilson
W. David Wilson
Vice President and Chief
Financial Officer

ANNUAL REPORT ON FORM 10-K

ITEM 15(a)(1) AND (2) AND (d)

INDEX OF FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 31, 2002

POLYONE CORPORATION

ITEM 15(a)(1) AND (2) AND 15(d)

POLYONE CORPORATION AND SUBSIDIARIES

INDEX OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements of PolyOne Corporation and subsidiaries, included in the Annual Report of the Registrant to its Stockholders for the year ended December 31, 2002, filed as Exhibit 13.1 to this Form 10-K are incorporated herein by reference in Item 8.

Consolidated statements of operations — Years ended December 31, 2002, 2001 and 2000.
Consolidated balance sheets — December 31, 2002 and 2001.
Consolidated statements of cash flows — Years ended December 31, 2002, 2001 and 2000.
Consolidated statements of shareholders' equity — Years ended December 31, 2002, 2001 and 2000.
Notes to consolidated financial statements — December 31, 2002.
Quarterly data (unaudited) — Years ended December 31, 2002 and 2001.
Report of Independent Auditors

The following financial statements of subsidiaries not consolidated and 50% or less owned persons, as required by Item 15(d), is incorporated by reference to Exhibit 13.2 to this Form 10-K:

Consolidated financial statements of Oxy Vinyls, LP as of December 31, 2002 and for each of the three years then ended.

The following consolidated financial statement schedule for the Registrant and its subsidiaries is included in Item 14(d):

Schedule II	Page F-3	Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore, have been omitted.

SCHEDULE II

POLYONE CORPORATION AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(Dollars in millions)

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts (C)	Other Deductions	Other Additions	Balance at End of Period
Year ended December 31, 2002						
Reserves for doubtful accounts	$ 9.5	$7.3	$ —	$(4.5)(A)	$ —	$12.3
Accrued liabilities for environmental matters	56.2	3.7	(0.7)	(6.9)(B)	—	52.3
Year ended December 31, 2001						
Reserves for doubtful accounts	$ 9.8	$4.7	$ —	$(5.0)(A)	$ —	$ 9.5
Accrued liabilities for environmental matters	58.4	3.9	0.1	(6.2)(B)	—	56.2
Year ended December 31, 2000						
Reserves for doubtful accounts	$ 3.8	$5.0	$ —	$(5.6)(A)	$ 6.6(D)	$ 9.8
Accrued liabilities for environmental matters	44.1	2.2	0.3	(2.3)(B)	14.1(D)	58.4

Notes:
(A) — Accounts charged off (for 2002 also includes divestiture of allowance for So.F.teR S.p.A. of $0.5 million).
(B) — Represents cash payments during the year.
(C) — Translation adjustments.
(D) — Represents the additional reserves related to consolidation on date of consolidation.

PolyOne Corporation
Index to Exhibits

Exhibit	Description	Filed:
3.1	Articles of Incorporation	(k)
3.2	Regulations	(k)
4.1	Indenture dated as of December 1, 1995 between the Company and NBD Bank, Trustee	(f)
4.2	Indenture dated November 9, 1996 between the Company and NBD Bank, as trustee, governing the Company's Medium Term Notes	(d)
4.3	Indenture dated September 15, 1991 between the Company and Ameritrust Company, National Association, Trustee related to the Company's $150,000,000 aggregate amount of 9.375% Senior Notes due 2003	(c)
4.4	Indenture, dated April 23, 2002, between the Company and The Bank of New York, as Trustee, including the form of the Company's 8.875% Senior Notes due May 2012	(m)
4.5	Registration Rights Agreement, dated as of April 23, 2002, among the Company and Salomon Smith Barney, Inc. and Deutsche Bank Securities, Inc. as representatives of the purchasers	(m)
10.1 +	Long-Term Incentive Plan, as amended and restated	(a)
10.2 +	Incentive Stock Plan, as amended and restated through August 31, 2000	(k)
10.3 +	1995 Incentive Stock Plan, as amended and restated through August 31, 2000	(k)
10.4 +	1998 Interim Stock Award Incentive Plan, as amended and restated through August 31, 2000	(k)
10.5 +	1999 Incentive Stock Plan, as amended and restated through August 31, 2000	(k)
10.6 +	2000 Stock Incentive Plan	(j)
10.7 +	Benefit Restoration Plan (Section 415)	(f)
10.8 +	Benefit Restoration Plan (Section 401(a)(17))	(f)

Exhibit	Description	Filed:
10.9a +	Senior Executive PolyOne Annual Incentive Plan (amended as of February 28, 2001 by Exhibit A [Definition of Change of Control] to Exhibit 10.9b below)	(k)
10.9b +	Strategic Improvement Incentive Plan Overview and Form of Award	(l)
10.10 +	Non-Employee Directors Deferred Compensation Plan effective December 9, 1993, as amended	(k)
10.11a +	Form of Management Continuity Agreement	(k)
10.11b +	Schedule of Executives with Management Continuity Agreements	*
10.12a	U.S. $85 million Fourth Amended and Restated Trade Receivables Purchase and Sale Agreement, dated May 28, 1999 among The Geon Company, CIESCO, L.P., Corporate Receivables Corporation and Citicorp North America, Inc. as Agent	(l)
10.12b	U.S. $85 million Third Amended and Restated Parallel Purchase Commitment dated as of May 28, 1999 among The Geon Company, the Banks Named therein and Citicorp North America, N.A., as agent	(l)
10.12c	Letter Amendment No. 4, dated as of March 14, 2001, among the Company, the Investors, the Banks, and Citicorp North America, Inc. as agent, amending Exhibits 10.12a and 10.12b by, inter alia, increasing the Commitment thereunder to $200 million	(l)
10.12d	Letter Amendment No. 5, dated as of June 22, 2001, among the Company, the Investors, the Banks, and Citicorp North America, Inc. as agent, amending Exhibits 10.12a and 10.12b by, inter alia, increasing the Commitment thereunder to $250 million	(n)
10.12e	U.S. $250 million Fifth Amended and Restated Trade Receivables Purchase and Sale Agreement, dated April 10, 2002, among PolyOne Funding Corporation, the Company, CIESCO, L.P., Corporate Receivables Corporation and Citicorp North America, Inc., as agent	(n)
10.13	Intentionally omitted.	
10.14	Amended and Restated Instrument Guaranty dated as of December 19, 1996	(f)
10.15	Amended and Restated Plant Services Agreement between the Company and The B.F. Goodrich Company	(f)

Exhibit	Description	Filed:
10.16	Amended and Restated Assumption of Liabilities and Indemnification Agreement dated March 1, 1993 and amended and restated April 27, 1993	(f)
10.17a	Partnership Agreement, by and between 1997 Chloralkali Venture Inc. and Olin Sunbelt, Inc.	(e)
10.17b	Amendment to aforesaid Partnership Agreement (Addition of Section 5.03 of Article 5)	(g)
10.17c	Amendment to aforesaid Partnership Agreement (Addition of Section 1.12)	(g)
10.18	Chlorine Sales Agreement, by and between Sunbelt Chlor Alkali Partnership and the Company	(e)
10.19	Intercompany Guarantee Agreement between the Company on the one hand and Olin Corporation and Sunbelt Chlor Alkali Partnership on the other hand	(e)
10.20	Guarantee by the Company of the Series G Sunbelt Chlor Alkali Partnership Guaranteed Secured Senior Notes Due 2017, dated December 22, 1997	(g)
10.21	Master Transaction Agreement dated December 22, 1998 between The Geon Company and Occidental Chemical Company	(h)
10.22	Limited Partnership Agreement of Oxy Vinyls, LP	(i)
10.23	Asset Contributions Agreement — PVC Partnership (Geon)	(i)
10.24	Parent Agreement (Oxy Vinyls, LP)	(i)
10.25	Parent Agreement (PVC Powder Blends, LP) and Business Opportunity Agreement	(i)
10.26a	Amendment, Waiver and Consent No. 4, dated as of March 28, 2002, to the $200 million Five-Year Credit Agreement dated as of October 30, 2000, among the Company, Citicorp USA, Inc. and the other banks signatory thereto	(l)
10.26b	$200 million Five Year Credit Agreement dated October 30, 2000, among the Company, Citicorp USA and the other banks signatory thereto, as amended and restated as of March 28, 2002	(l)

Exhibit	Description	Filed:
10.26c	Waiver and Amendment No. 1, dated as of December 26, 2002, to the $200 million Five Year Credit Agreement dated October 30, 2000, among the Company, Citicorp USA and the other banks signatory thereto, as amended and restated as of March 28, 2002	*
13.1	Annual Report to Shareholders for the Year Ended December 31, 2002	*
13.2	Audited Financial Statements of Oxy Vinyls, LP	*
21	Subsidiaries	*
23.1	Consent of Independent Auditors — Ernst & Young LLP	*
23.2	Consent of Independent Auditors — KPMG LLP	*
23.3	Information Regarding Consent of Arthur Andersen LLP	*
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by Thomas A. Waltermire, Chairman of the Board, President and Chief Executive Officer	*
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by W. David Wilson, Vice President and Chief Financial Officer	*

+ Indicates management contract or compensatory plan, contract or arrangement in which one or more directors or executive officers of the Registrant may be participants

* Filed herewith

(a) Incorporated by reference to the corresponding Exhibit filed with M.A. Hanna Company’s definitive proxy statement dated March 23, 2000, SEC File No. 1-05222.

(b) Incorporated by reference to the corresponding Exhibit filed with M.A. Hanna Company’s Form 8-K dated September 12, 1991, SEC File No. 1-05222.

(c) Incorporated by reference to the corresponding Exhibit filed with M.A. Hanna Company’s Form S-3 dated September 18, 1991, SEC File No. 1-05222.

(d) Incorporated by reference to the corresponding Exhibit filed with M.A. Hanna Company’s Form S-3 Registration Statement No. 333-05763, dated June 12, 1996.

(e) Incorporated by reference to the corresponding Exhibit filed with The Geon Company’s Form 10-Q for the Quarter ended September 30, 1996, SEC File No. 1-11804.

(f) Incorporated by reference to the corresponding Exhibit filed with The Geon Company's Form 10-K for the Year ended December 31, 1996, SEC File No. 1-11804.

(g) Incorporated by reference to the corresponding Exhibit filed with The Geon Company's Form 10-K for the Year ended December 31, 1997, SEC File No. 1-11804.

(h) Incorporated by reference to the corresponding Exhibit filed with The Geon Company's Special Meeting Proxy Statement dated March 30, 1999, SEC File No. 1-11804.

(i) Incorporated by reference to the corresponding Exhibit filed with The Geon Company's Form 8-K filed on May 13, 1999, SEC File No. 1-11804.

(j) Incorporated by reference to the corresponding Exhibit filed with Amendment No. 3 to Form S-4 Registration Statement No. 333-37344, dated July 31, 2000.

(k) Incorporated by reference to the corresponding Exhibit filed with the PolyOne Corporation's Form 10-K for the Year ended December 31, 2000, SEC File No. 1-16091.

(l) Incorporated by reference to the corresponding Exhibit filed with PolyOne Corporation's Form 10-K for the Year ended December 31, 2001, SEC File No. 1-16091.

(m) Incorporated by reference to the corresponding Exhibit filed with the Company's Form S-4 Registration Statement No. 333-87472, dated May 2, 2002.

(n) Incorporated by reference to the corresponding Exhibit filed with the Company's Form 10-Q for the Quarter ended March 31, 2002, SEC File No. 1-16091.

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Exhibit 10.11(b)

Schedule of Executive with
Continuity Agreements

Title	Name	Years/Comp*
Chairman of the Board, President and Chief Executive Officer	Thomas A. Waltermire	3
Group Vice President, Global Plastics	V. Lance Mitchell	3
Vice President and General Manager, Elastomers and Performance Additives	John E. Quinn	3
Vice President and General Manager, Distribution	Michael L. Rademacher	3
Vice President, Chief Legal Officer and Secretary	Wendy C. Shiba	3
Vice President and Chief Human Resources and Information Officer	Kenneth M. Smith	3
Vice President and Chief Financial Officer	W. David Wilson	3
Vice President and General Manager, International Compounds & Colors	Bernard Baert	2
Vice President and General Manager, Specialty Resins and Formulators	Denis L. Belzile	2
Vice President and General Manager, Engineered Films	David Quester	2
Vice President and Chief Technology Officer	Roger W. Avakian	1
Vice President and Chief Investor and Communications Officer	Dennis A. Cocco	1
Vice President and Chief Sourcing Officer	Daniel L. Kickel	1
Treasurer	John L. Rastetter	1
Controller	Gregory P. Smith	1

* Years of compensation payable upon change of control.

Exhibit 10.26c

EXECUTION COPY

WAIVER AND AMENDMENT NO. 1 TO THE
AMENDED AND RESTATED FIVE-YEAR CREDIT AGREEMENT

Dated as of December 26, 2002

WAIVER AND AMENDMENT NO. 1 TO THE AMENDED AND RESTATED FIVE-YEAR CREDIT AGREEMENT (this "Amendment") among POLYONE CORPORATION, an Ohio corporation (the "Company"), the banks, financial institutions and other institutional lenders parties to the Credit Agreement referred to below (collectively, the "Lenders") and CITICORP USA, INC., as administrative agent (the "Agent") for the Lenders.

PRELIMINARY STATEMENTS:

(1) The Company, the Lenders and the Agent have entered into a Five-Year Credit Agreement dated as of October 30, 2000, amended and restated as of March 28, 2002 (such Credit Agreement, as so modified, the "Credit Agreement"). Capitalized terms not otherwise defined in this Amendment have the same meanings as specified in the Credit Agreement.

(2) The Company and the Lenders have agreed to amend the Credit Agreement and the other Loan Documents (as hereinafter defined) as hereinafter set forth.

SECTION 1. Waiver. Subject to the satisfaction of the conditions precedent set forth in Section 3, the Lenders hereby waive compliance with Sections 5.03(a) and (b) of the Credit Agreement for the fiscal quarter ended December 31, 2002.

SECTION 2. Amendments to Credit Agreement. The Credit Agreement is, effective as of the date hereof and subject to the satisfaction of the conditions precedent set forth in Section 3, hereby amended for the period from the date hereof through June 30, 2003 (the "Amendment Termination Date") as follows:

(a) The definition of "Applicable Margin" in Section 1.01 is amended by deleting the figures "2.250%" and "3.100%" set opposite Performance Level VIII in the grid and substituting therefor the figures "2.650%" and "3.500%", respectively.

(b) The definition of "Applicable Percentage" in Section 1.01 is amended by deleting the figure "0.400%" set opposite Performance Level VIII in the grid and substituting therefor the figure "0.500%".

(c) The definition of "EBITDA" in Section 1.01 is amended (i) by deleting the word "and" immediately before clause (f) and substituting a comma therefor and (ii) by inserting immediately before the phrase "in each case determined in accordance with GAAP for such period" the phrase "and (g) extraordinary or unusual losses deducted in calculating net income resulting from business reorganizations in 2003 to the extent that the cash payments for losses described in this clause (g) do not exceed $15,000,000 for the fiscal quarter ending March 31, 2003 and do not exceed $25,000,000 for the period from January 1, 2003 through June 30, 2003".

(d) Section 4.01 is amended by adding to the end thereof a new subsection (p) to read as follows:

(p) The Company is, individually and together with its Subsidiaries, Solvent. "Solvent" means, with respect to any Person on a particular date, that on such date (i) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (ii) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (iii) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay such debts and liabilities as they mature and (iv) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

(e) Section 5.01(i)(xi) is amended by (i) deleting the reference "Section 5.03(c)" and substituting therefor the reference "Section 5.03" and (ii) deleting the punctuation "." at the end thereof and substituting therefor the punctuation ";" and adding a new clause (xii) to read as follows:

(xii) as soon as available and in any event within 30 days after the end of each calendar month other than December, and within 45 days after the end of each December, the Consolidated balance sheet of the Company and its Subsidiaries as of the end of such month and Consolidated statements of income and cash flows of the Company and its Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such month.

(f) Section 5.02(b) is amended by deleting the phrase "except that any Subsidiary of the Company may merge or consolidate with or into, or dispose of assets to, any other Subsidiary of the Company" and substituting therefor the phrase "except that any Subsidiary Guarantor may merge or consolidate with or into, or dispose of assets to, any other Subsidiary Guarantor and any Subsidiary (other than a Subsidiary Guarantor) may merge or consolidate with or into, or dispose of assets to, any other Subsidiary of the Company".

(g) Section 5.02(f) is amended (i) by adding to the end of clause (i) a proviso to read "provided, that additional investment in wholly owned Subsidiaries organized outside of the United States shall be made only by other Subsidiaries organized outside of the United States for the period from January 1, 2003 through June 30, 2003" and (ii) clause (iv) is amended by deleting the phrase "acquisitions of Techmer, PM, LLC and SoFteR S.p.a. for an aggregate amount not to exceed $37,000,000" and substituting therefor the phrase "the contribution of up to $10,000,000 to a joint venture to consist of the polyurethane system businesses of the Company and Bayer Corporation".

(h) Section 5.02(g) is amended (i) by deleting the phrase "At any time after December 31, 2001 that the Borrowed Debt/EBITDA Ratio is greater than or equal to 4.00:1 and until the Borrowed Debt/EBITDA Ratio is less than or equal to 3.50:1 for two consecutive fiscal quarters," and (ii) by deleting clauses (i)(B) and (C) and substituting therefor the phrase "intentionally omitted".

(i) Section 5.02(i) is amended in full to read as follows:

(i) Capital Expenditures. Make or permit any of its Subsidiaries to make, Capital Expenditures that would cause the aggregate of all such Capital Expenditures made by the

Company and its Subsidiaries in any fiscal quarter to exceed $15,000,000 plus Investments permitted pursuant to Section 5.02(f)(iv), provided that the aggregate amount of Capital Expenditures made during the period from January 1, 2003 through June 30, 2003 shall not exceed $25,000,000.

(j) The following new sections are added to the end of Section 5.02:

(k) Prepayments, Etc., of Debt. Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner, or make any payment in violation of any subordination terms of, any Debt, except (i) the prepayment of the Advances in accordance with the terms of this Agreement, (ii) the prepayment of loans under working capital revolving lines of credit, (iii) the prepayment of the Company's 9 3/8% Senior Notes due 2003 with the proceeds of Debt other than the Advances and (iv) regularly scheduled or required repayments or redemptions of Debt, or amend, modify or change in any manner any term or condition of any Debt other than the Advances, or permit any of its Subsidiaries to do any of the foregoing other than to prepay any Debt payable to the Company.

(l) Partnerships, Etc. Become a general partner in any general or limited partnership or joint venture, or permit any of its Subsidiaries to do so, other than any Subsidiary the sole assets of which consist of its interest in such partnership or joint venture or as permitted pursuant to Section 5.02(f)(iv).

(k) Section 5.03(a) is amended in full to read as follows:

(a) Interest Coverage Ratio. Maintain an Interest Coverage Ratio during each fiscal quarter set forth below of not less than the ratio set opposite such fiscal period:

Period	Ratio
January 1, 2003 through June 30, 2003	1.90:1
July 1, 2003 and thereafter	4.00:1

(l) Section 5.03(b) is amended in full to read as follows:

(b) Borrowed Debt/EBITDA Ratio. Maintain a Borrowed Debt/EBITDA Ratio during each fiscal quarter set forth below of not more than the ratio set opposite such fiscal period:

Period	Ratio
From January 1, 2003 through June 30, 2003	6.00 to 1
From July 1, 2003 through September 30, 2003	4.00 to 1
From October 1, 2003 and thereafter	3.50 to 1

(m) Exhibit B-1 is amended by deleting the period at the end of clause (B), substituting therefor the word "; and" and adding immediately above the signature block a new clause (C) to read as follows:

(C) the proceeds of the Proposed Revolving Credit Borrowing will be used to fund known or anticipated cash requirements of the Company and its Subsidiaries in the ordinary course of their respective businesses.

(n) Exhibit B-2 is amended by deleting the period at the end of clause (d), substituting therefor the word "; and" and adding immediately above the signature block a new clause (e) to read as follows:

(e) the proceeds of the Proposed Competitive Bid Borrowing will be used to fund known or anticipated cash requirements of the Company and its Subsidiaries in the ordinary course of their respective businesses.

SECTION 3. Conditions to Effectiveness. This Amendment shall become effective as of the date first above written when, and only when, on or before December 26, 2002 the Agent shall have received (a) an amendment fee, for the account of the Lenders approving this Amendment in an amount equal to 0.35% of their respective Commitments, (b) counterparts of this Amendment executed by the Company and the Required Lenders or, as to any of the Lenders, advice satisfactory to the Agent that such Lender has executed this Amendment, (c) a notice from the Company pursuant to Section 2.05 of the Credit Agreement, to reduce ratably the Commitments of the Lenders to an aggregate amount of not more than $125,000,000 and (d) in sufficient copies for each Lender, in form and substance satisfactory to the Agent:

(i) Certified copies of the resolutions of the Board of Directors of the Company evidencing approval of this Amendment.

(ii) A certificate of the Secretary or an Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to sign this Amendment.

(iii) A favorable opinion of senior legal counsel for the Company in substantially the form of Exhibit F-1 to the Credit Agreement, with such changes as are appropriate to address the Credit Agreement as amended hereby.

This Amendment is subject to the provisions of Section 9.01 of the Credit Agreement.

SECTION 4. Representations and Warranties of the Company. The Company represents and warrants as follows:

(a) The representations and warranties contained in the Credit Agreement, as amended hereby, are true and correct in all material respects at and as of the date of this Amendment.

(b) The Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction indicated in the recital of parties to this Amendment.

(c) The execution, delivery and performance by the Company of this Amendment, the Credit Agreement and the Notes, as amended hereby, and the consummation of the transactions contemplated hereby are within the Company's corporate powers, have been duly authorized by all

necessary corporate action and do not contravene (i) the Company's charter or by-laws or (ii) law or any contractual restriction binding on or affecting the Company.

(d) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery or performance by the Company of this Amendment or the Credit Agreement and the Notes, as amended hereby.

(e) This Amendment has been duly executed and delivered by the Company and is the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with its terms.

(f) To the best of the Company's knowledge, there is no pending or threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, affecting the Company or any of its Subsidiaries before any court, governmental agency or arbitrator that (i) could be reasonably likely to have a Material Adverse Effect (other than the Disclosed Litigation) or (ii) purports to affect the legality, validity or enforceability of this Amendment or the Credit Agreement and the Notes to be delivered by the Company, as amended hereby, and there has been no adverse change in the status, or financial effect on the Company or any of its Subsidiaries, of the Disclosed Litigation from that described on Schedule 3.01(b) to the Credit Agreement.

(g) After giving effect to this Amendment, no Default has occurred and is continuing.

SECTION 5. Reference to and Effect on the Credit Agreement.

(a) On and after the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement and each reference to the Credit Agreement in each other Loan Document, shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

(b) The Credit Agreement, as specifically amended by this Amendment, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Agent under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement.

(d) On the Amendment Termination Date, without any further action by the Agent and the Lenders, all of the terms and provisions set forth in the Loan Documents with respect to Defaults thereunder that are waived or otherwise remedied hereunder (other than in respect of the waiver contained in Section 1 of this Amendment) and not cured prior to the Amendment Termination Date shall have the same force and effect as if this Amendment had not been entered into by the parties hereto, and the Agent and the Lenders shall have all of the rights and remedies afforded to them under the Loan documents with respect to such Defaults as though no waiver or amendment had been granted by them hereunder.

SECTION 6. Costs and Expenses. The Company agrees to pay on demand all costs and expenses of the Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment and the other instruments and documents to be delivered hereunder (including, without limitation, title insurance premiums and search fees and the reasonable fees

and expenses of counsel for the Agent) in accordance with the terms of Section 9.04 of the Credit Agreement.

SECTION 7. Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 8. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

[Signatures on following page]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

POLYONE CORPORATION

By

Title:

CITICORP USA, INC.,
as Agent and as Lender

By

Title:

BANK ONE, NA
(as successor by merger with Bank One, Michigan)

By

Title:

DEUTSCHE BANK AG NEW YORK BRANCH

By

Title:

By

Title:

KEYBANK NATIONAL ASSOCIATION

By

Title:

ABN AMRO BANK, N.V.

By

Title:

By

Title:

BANK OF AMERICA, N.A.

By

Title:

COMERICA BANK

By

Title:

MELLON BANK, N.A.

By

Title:

JPMORGAN CHASE BANK

By

Title:

NATIONAL CITY BANK

By

Title:

SCOTIABANC, INC.

By

Title:

THE BANK OF NEW YORK

By

Title:

CONSENT

Dated as of December 26, 2002

Each of the undersigned, as a Subsidiary Guarantor under the Subsidiary Guaranty dated as of January 25, 2002 (such Guaranty as amended and supplemented or otherwise modified through the date hereof) in favor of the Secured Parties under the Credit Agreement referred to in the foregoing Amendment, hereby consents to such Amendment and hereby confirms and agrees that (i) each Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects, except that on and after the effectiveness of such Amendment, each reference in the Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import shall mean and be reference to the Credit Agreement as amended by such Amendment and (ii) the Collateral described in each Loan Document to which such Guarantor is a party do, and shall continue to, secure the payment of all the Secured Obligations (in each case as defined therein).

POLYONE DISTRIBUTION COMPANY

By

Title:

POLYONE ENGINEERED FILMS, INC.

By

Title:

POLYONE DIAGNOSTICS, INC.

By

Title:

LINCOLN & SOUTHERN RAILROAD CO.

By

Title:

Exhibit 13.1

POLYONE...

Focus on performance
Innovative technologies
Significant earnings potential
Talented, dedicated people
Reliable, cost-efficient service
Global expansion
Modern manufacturing base
Market knowledge

[POLYONE LOGO]
2002 Annual Report

PolyOne
at a glance

Total assets	$2.0 billion
People worldwide	7,600
Plants	66
Countries with plants	20
Raw material suppliers	2,000
Countries where we sell	35
Customers greater than	10,000
Products greater than	35,000

Business Platforms
Sales in millions

$2.5 billion in 2002 sales revenues*

Elastomers and Performance Additives	$ 364	14%
Vinyl Compounding	$ 627	24%
Color & Additives		13%
- N.A.	$ 194	
- Europe & Asia	$ 147	
Engineered Materials		13%
- N.A.	$ 140	
- Europe & Asia	$ 192	
Engineered Films	$ 153	6%
Specialty Resins and Formulators	$ 265	10%
Distribution	$ 520	20%

*Excluding corporate, eliminations and other of $104 million

Diverse End Markets

Auto	15%
Construction	25%
Durable	10%
Non-durable	14%
Business Equipment & Telecommunications	9%
Industrial Applications	11%
Miscellaneous	16%

% of Total Sales

FINANCIAL HIGHLIGHTS

	Year Ended December 31, 2002	2001
REPORTED RESULTS (1, 2)		
SALES	$2,498.2	$2,581.1
EMPLOYEE SEPARATION AND PLANT PHASEOUT	1.1	36.1
OPERATING INCOME (LOSS)	38.9	(29.5)
LOSS BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING	(6.6)	(47.1)
NET LOSS	(58.9)	(46.1)
CAPITAL EXPENDITURES	75.1	78.1
DEPRECIATION AND AMORTIZATION	72.5	89.2
TOTAL LONG-TERM DEBT (year end)	583.2	431.4
STOCKHOLDERS' EQUITY (year end)	579.7	713.4
DILUTED LOSS BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PER SHARE	$ (0.07)	$ (0.52)
DILUTED EARNINGS (LOSS) PER SHARE	(0.65)	(0.51)
WEIGHTED-AVERAGE COMMON SHARES USED TO COMPUTE DILUTED EARNINGS PER SHARE (in millions)	90.8	89.8
NUMBER OF EMPLOYEES (year end)	7,600	8,200

(1) See Management"s Analysis beginning on page 6 for a description of the audited reported results.

(2) Reported results include special items, which are summarized in the table on page 12.

2002
SALES BY SEGMENT*
Dollars in millions

PERFORMANCE PLASTICS	$1,719	66%
DISTRIBUTION	$ 520	20%
ELASTOMERS AND PERFORMANCE ADDITIVES	$ 364	14%

*Excluding corporate, eliminations and other of $104 million

2002
SALES
BY GEOGRAPHIC REGION
Dollars in millions

United States	$1,915	76%
Europe	$ 292	12%
Canada	$ 168	7%
Asia	$ 78	3%
Mexico	$ 45	2%

To Our Shareholders:

Since we formed PolyOne in September 2000, we have pursued an aggressive agenda to create a unified company built on reliable, cost-efficient service to customers and capable of consistent growth and strong financial results. The changes we have initiated are both necessary and beneficial but, in the midst of prolonged economic recession, our sales and financial results have not met our expectations.

In 2002, we undertook a thorough reassessment of our cost structure, our organization and our portfolio of businesses. We entered 2003 with urgency and focus to unleash the substantial earnings potential that PolyOne possesses.

In these pages, I will review our actions and accomplishments of the past year. More important, I will explain how we intend to build on this foundation in the year ahead to renew sales growth and drive significant earnings improvement.

We move forward confident of the enterprise we are creating. Our business model is sound and the opportunity exists for long-term profitability, regardless of the vagaries of the economy. We laid much of the groundwork for success in 2002.

2002: Building the Foundation

Our "to-do" list for 2002 called for launching new projects and extending or completing major initiatives begun the year before:

- The consolidation and modernization of our North American manufacturing assets in our Vinyl Compound, Color and Additives, and Engineered Materials businesses was essentially finished. We expect to realize annual operating savings of $50 million from our investment of approximately $45 million. Yet, this project was much more than a cost-cutting move. It also addressed specific operational and service issues. Today, these businesses have a modern, cost-efficient manufacturing base.

- We extended our unified global information technology system, which is nearly complete; we will finalize new information systems for Singapore, Thailand and Spain in 2003. This invaluable tool helps multiple areas of our business: sourcing, logistics, production planning, customer data and finance. In practical terms, the system provides us with faster, better information for smarter decision making.

- By year end, we had realized approximately $150 million in annualized income improvements compared with the base year 2000, and we are on target to attain our original goal of a total $200 million in these value capture initiatives by the end of 2003.

- Responding to continuing sales growth in our international operations, we embarked on a multi-phase expansion of our booming Asian business. Adding to four existing plants, we opened a customer support laboratory and sales office in southern China. We also expanded polymer compounding and color concentrates capacity in the Shanghai area.

- In another move to strengthen our international business, we completed the acquisition of Transformacion de Pigmentos y Colorantes, S.A. (Transcolor), a large color concentrates producer near Pamplona in northern Spain. Transcolor bolsters our product platform and delivery of color and additive concentrates to customers in Spain and Portugal.

- PolyOne Distribution added our Geon brand vinyl compounds to its product offering - a highly successful conversion from a third-party distributor, which propelled the business to a 12 percent sales improvement in 2002 compared with 2001.

- As promised, we became more active in acquiring new technologies. We forged agreements with respected partners such as DuPont Dow Elastomers; Nanocor, Inc.; and Noveon, Inc. to manufacture and market innovative new products with high growth potential. We also introduced a new wall-covering technology based on polyolefins.

"We move forward confident of the enterprise we are creating. Our business model is sound and the opportunity exists for long-term profitability, regardless of the vagaries of the economy."

- We achieved an important goal in the integration of PolyOne with the establishment of a unified employee benefits program that covers most PolyOne people in the United States. Now, almost everyone is governed by the same policies on compensation, health care and other benefits - a big step toward building a cohesive team.

- Taking advantage of our scale and systems, we created opportunities unavailable to many of our competitors in terms of a unified North American logistics network and integrated raw material supply. We opened our first raw material distribution warehouse that will allow us to more cost effectively purchase quantities of small-use materials such as pigments.

2003: Higher Sales, Lower Costs

These achievements are the bedrock on which we are building a better, stronger PolyOne that delivers value to customers, wins in the marketplace and earns a good return for investors. Nevertheless, with continuing economic weakness and a more competitive marketplace, we took a hard look at ourselves in 2002 and concluded that more change was needed. We complemented our internal assessment with in-depth surveys in which we asked our customers to rate us on attributes such as quality, price, delivery, service and value.

On the strength of our own evaluation and our customers' feedback, we entered 2003 with attention to four key initiatives for immediate and long-term marketplace effectiveness.

CUSTOMER TARGETS: We are focusing resources on customers who provide the best opportunities for growth and profitability. Not every customer has identical needs. Our job is to match our service to the needs of our various customer segments, ensuring that our cost to serve meets the customer's willingness to pay.

In addition, each business unit has the objective to make it easier for customers to do business with us and to improve our speed of response. We will use our customer segmentation and survey results to address customers' needs first and foremost. We expect to grow faster than our markets by helping our customers do the same.

THE LOW-COST PROVIDER: Polymer services business is won first on cost, reliability and speed - especially in these tough economic times. We need to reduce our costs continually, and our customers expect us to help them do likewise. The upgrade of our North American manufacturing assets gives us a boost in our drive to become more cost competitive, but we need to do more.

In January, we eliminated approximately 400 salaried positions in overhead areas and centralized some administrative functions such as human resources and information technology. These actions, combined with non-personnel reductions, will help us in our drive to bring our selling and administrative (S&A) costs to an objective of less than 10 percent of sales and keep them there.

We are being proactive, rather than waiting for the economy to rebound. In 2003, we expect to reach our value capture initiatives goal and continue to reduce costs. Our new facilities and systems will help us gain a competitive advantage by establishing PolyOne as the most reliable cost-efficient producer.

"To our suppliers, we offer entry into more markets than any of our competitors can deliver. Our customers trust our products. By being the best at satisfying their needs, we will gain momentum and grow together."

SIMPLIFIED WORK: Our customers tell us that they want the same thing each of us wants whenever we make a purchase: fast, right, cost-efficient, hassle-free service. That means they want on-time shipments of defect-free products at the lowest possible price. And, they want it to be easy to do business with us.

In response, we have realigned our North American Plastic Compounds and Colors operations, transitioning from numerous market-based sales teams to three distinct, product-focused teams for Vinyl Compounds, Color and Additives, and Engineered Materials. We will maintain market-based teams in a few select areas, such as wire and cable and packaging, in which customers find the greatest value in our capability to cross sell the full range of PolyOne products.

With fewer layers of authority in a simplified organization, we will respond more quickly, enhancing our position as customers continue to seek lower costs. This new alignment also helps us link marketing programs and technologies on a global basis, an increasingly important opportunity.

NEW TECHNOLOGY: Even as we reduce our costs, we are increasing our investment in research and development. Our customers are interested in new performance features, especially new ideas that will help them lower their costs.

We are consolidating our laboratory personnel and equipment at our new PolyOne Solution Center in Avon Lake, Ohio. Here, PolyOne scientists and technicians have expanded resources to accelerate product development across a wide range of our key product lines.

In addition, we are excited by the steady stream of major polymer and additive suppliers that are selecting PolyOne to help them commercialize their technical innovations. They value our knowledge of a wide range of markets, our technical depth and our global reach. These strengths are unique. In the long run, our customers benefit as PolyOne brings them the best new technologies to help them meet their goals.

We are now executing in all four of these areas. The overall goal behind this work is clear: Increase our sales and lower our costs. We believe we are building on a solid foundation. Our suppliers and customers are eager to work with us. To our suppliers, we offer entry into more markets than any of our competitors can deliver. Our customers trust our products. By being the best at satisfying their needs, we will gain momentum and grow together.

Financial Review

Our management team is committed to improving PolyOne's financial performance, and we are united in our resolve to improve both immediately and for the long term. This year, we are driving toward a sales growth objective of 3 percent to 5 percent in a flat economy(1). New income sources should include additional value capture initiatives, S&A savings from our recent overhead reduction, and improved results in our Resin and Intermediates businesses. These units should be solid contributors, assuming that energy costs do not erode an apparent upswing in the cycle for these basic materials.

Within the last two years, we invested nearly $150 million companywide in our infrastructure. A major part of this investment was the upgrade of our U.S. manufacturing assets, which is now complete. Accordingly, our capital expenditures will decline to approximately $50 million from $75 million last year. Even at this reduced level, we have allocated funds to help capture the growing opportunities in Asia and Europe.

(1) See Forward-looking Statements, page 45.

Another action that will increase cash flow is the suspension of our quarterly dividend. Unpopular as this decision may be, it was the right one because dividends should come from earnings, and we were not earning a sufficient amount to justify the annual $23 million payout. We have stated repeatedly that we expect PolyOne to be a strong cash generator, and that the Board of Directors will reconsider the dividend when earnings justify it.

We also have been open about seeking to change our business portfolio by divesting our non-core assets. Initially, we would use the proceeds to reduce debt; we have commented that this reduction could be in the range of $200 million to $300 million. Our debt structure does not require the sale of any business, and we have no fixed timetable. We will take this step only if we receive fair value.

This action would, however, provide us with financial flexibility in a tenuous economy and it would better position us to invest rapidly in strategically important projects when earnings rebound. We still see investment and consolidation opportunities in our industry.

Ethics That Endure

In the wake of several widely reported instances of corporate corruption in 2002, I would be remiss if I did not address PolyOne's ethical standards. I am proud to say that full, open disclosure always has been the norm for us.

With respect to corporate governance, you can take comfort in knowing that PolyOne's Board of Directors comprises non-employees only, with the exception of myself. Executive compensation is closely tied to performance. We already were living the practices the New York Stock Exchange is now demanding of all listed companies.

Our core values - excellence, integrity, innovation, teamwork, respect for all - apply to everyone at every level of the organization, not just those in leadership positions. In this spirit, we have codified our ethical business practices in documents and training for all PolyOne people. We encourage our people to report questionable conduct and to seek clarification if they are unsure of the right thing to do in a given situation.

Our Promise to You

We have embarked on a watershed year in PolyOne's short history. Many challenges remain, yet we believe deeply that our Company has the makings for sustained growth and profitability. I salute our talented people for their past contributions, and I am confident that they are more than equal to the task ahead. We will perform and reward the fidelity of our customers and of you, our shareholders. I thank you for your support. We will not rest until we have created the success you expect and deserve.

[PHOTO OF THOMAS A. WALTERMIRE]

/s/ Thomas A. Waltermire
Thomas A. Waltermire
Chairman of the Board,
President and Chief Executive Officer

March 21, 2003

MANAGEMENT'S ANALYSIS - RESULTS OF OPERATIONS

PolyOne Corporation (PolyOne or Company) is a leading global polymer services company, with worldwide annual sales of approximately $2.5 billion. PolyOne's 2002 sales and operating results were significantly impacted by the continued weakness in the manufacturing sector of the U.S. economy. The U.S. industrial manufacturing economic index (excluding high technology) for 2002 averaged approximately 1% below the 2001 average and 7% below the index peak in June 2000. Commencing in the second half of 2000, the slowdown of the U.S. economy has significantly reduced customer product demand and resulted in lower sales and earnings in both PolyOne's consolidated businesses and the operations of our equity affiliates. While lower sales in 2002 resulted primarily from economic conditions, some market share losses occurred in the North American color and additive concentrate, vinyl compound, and elastomer and performance additive markets. In 2002, however, we saw some recovery in demand and margins of both the U.S. polyvinyl chloride (PVC) resin industry and the chlor-alkali industry, in which PolyOne has equity affiliates. Partially offsetting the negative U.S. economic forces were PolyOne's continuing initiatives to restructure our operations following the consolidation and formation of PolyOne in 2000. At the end of 2002, we had realized approximately three-quarters of the strategic value capture initiatives announced in 2001 - which consist of specific programs to structurally reduce material, manufacturing, logistics, and selling and administrative costs and to increase sales growth - with the remainder expected to be realized in 2003.

PolyOne was formed on August 31, 2000 from the consolidation of The Geon Company (Geon) and M.A. Hanna Company (Hanna). The PolyOne consolidation was accounted for as a purchase business combination, with Geon as the acquiring entity. Accordingly, PolyOne's "reported results" under generally accepted accounting principles (GAAP) for the year ended December 31, 2000 reflect the operating results of Geon for eight months prior to the consolidation, and of PolyOne for four months (which include the operating results of Hanna from the date of consolidation).

In the commentary that follows, "pro forma results" are also provided for the 2000 operating results because of the significant and pervasive impact of the merger on comparative data. The 2000 pro forma operating results assume that the consolidation of Geon and Hanna occurred prior to the period presented. Further, the 2000 pro forma operating results assume that Hanna's sale of its Cadillac Plastic business, recognized in the second and third quarters of 2000, occurred prior to the period presented. The 2000 pro forma operating results do not include any then-future profit improvements and cost savings or associated costs, including restructuring costs expected or subsequently resulting from the integration of Geon and Hanna. The 2000 pro forma operating results are provided for illustrative purposes only, and do not necessarily indicate the operating results that would have occurred.

MD&A:

SUMMARY OF CONSOLIDATED OPERATING RESULTS

(In millions, except per share data)

	Year Ended December 31,			
	Reported Results			Pro Forma Results
	2002	2001	2000	2000
SALES	$2,498.2	$2,581.1	$1,861.3	$3,069.2
OPERATING INCOME (LOSS)	38.9	(29.5)	63.9	113.1
NET INCOME (LOSS)	(58.9)	(46.1)	15.9	52.4
(INCOME) FROM DISCONTINUED OPERATIONS - AFTER TAX	(1.4)	(1.0)	(0.7)	(1.6)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING - AFTER-TAX EXPENSE	53.7	--	--	--
INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING - AFTER TAX	$ (6.6)	$ (47.1)	$ 15.2	$ 50.8
EARNINGS (LOSS) PER SHARE, DILUTED	$ (0.65)	$ (0.51)	$ 0.26	$ 0.57
EARNINGS (LOSS) PER SHARE BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING, DILUTED	$ (0.07)	$ (0.52)	$ 0.25	$ 0.55
EFFECT ON EARNINGS PER SHARE OF EXCLUDING SPECIAL ITEMS, INCREASE (DECREASE)(1)	$ 0.10	$ 0.40	$ 0.15	$ (0.04)
EFFECT ON EARNINGS PER SHARE OF EXCLUDING GOODWILL AMORTIZATION EXPENSE, INCREASE	$ 0.00	$ 0.17	$ 0.09	$ 0.16
OTHER DATA:				
NET CASH PROVIDED (USED) BY:				
OPERATING ACTIVITIES OF CONTINUING OPERATIONS	$ (32.7)	$ 303.4	$ 88.2	
INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(78.6)	(72.4)	16.3	
FINANCING ACTIVITIES OF CONTINUING OPERATIONS	136.4	(249.7)	(117.4)	
EBITDA(2)	$ 111.4	$ 59.7	$ 120.5	$ 212.1
RECONCILIATION(2):				
INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING	$ (6.6)	$ (47.1)	$ 15.2	$ 50.8
INCOME TAX EXPENSE (BENEFIT)	(5.2)	(27.1)	9.4	7.2
INTEREST EXPENSE, NET	41.5	38.4	34.7	51.5
OTHER EXPENSE, NET	9.2	6.3	4.6	3.6
DEPRECIATION AND AMORTIZATION	72.5	89.2	56.6	99.0
EBITDA	$ 111.4	$ 59.7	$ 120.5	$ 212.1

(1) Special items in all years related primarily to restructuring initiatives, the sale of equity investments, and merger and integration costs, and are summarized and explained in the table titled "Summary of Special Items" on page 12.

(2) EBITDA is defined as income before discontinued operations and cumulative effect of a change in accounting, income taxes, net interest expense, net other expense, and depreciation and amortization expense. EBITDA excludes net other expense because the financing cost of the receivables sale facility is the largest component. EBITDA is a non-GAAP measure and should not be considered an alternative to any other measure of performance in accordance with GAAP. PolyOne presents EBITDA because management believes that EBITDA could be useful for investors in assessing our operating performance and our performance relative to our financial obligations. Additionally, EBITDA is a measure commonly used by financial analysts because of its usefulness in evaluating operating performance. EBITDA, as used by PolyOne, is not necessarily comparable with similarly titled measures of other companies. The table above presents a reconciliation from income (loss) before discontinued operations and cumulative effect of a change in accounting to EBITDA.

2002 RESULTS OF OPERATIONS

In December 2002, PolyOne sold its 70% interest in So.F.teR S.p.A. (Softer), an

Italian compounder of thermoplastic materials. With the sale, all historical operating results of this business have been reported separately as a discontinued operation. The business was previously included within PolyOne's Performance Plastics business segment. For more information regarding this discontinued operation, see Note D to the Consolidated Financial Statements.

PolyOne's total sales for 2002 were $2.5 billion, a decrease of $82.9 million, or 3%, from 2001. The Distribution business segment was the only business segment to demonstrate 2002 sales improvements compared with 2001, due primarily to increased sales of vinyl

compounds produced by PolyOne's Performance Plastics business segment. Prior to 2002, most of these sales were made through a third-party distributor. The 2002 sales of vinyl compounds produced by our Performance Plastics business segment through the Distribution business segment also increased the 2002 inter-segment sales elimination.

Operating income was $38.9 million in 2002 compared with a loss of $29.5 million in 2001. The operating loss in 2001 includes amortization expense related to goodwill of $18.0 million. Effective January 1, 2002, PolyOne no longer amortizes goodwill. EBITDA was $111.4 million in 2002 and $59.7 million in 2001. The change in EBITDA between 2002 and 2001 was due primarily to special items incurred during each year. Special items in both years related primarily to restructuring initiatives and the sale of equity investments, and are summarized and explained in the table titled "Summary of Special Items" on page 12. Special items totaled expense of $14.0 million in 2002 and $61.1 million in 2001. Accordingly, before the impact of special items, EBITDA in 2002 was $2.8 million higher than in 2001. This modest increase was driven by the net effect of improved earnings of our Resin and Intermediates business segment and the benefit of strategic value capture initiatives less lower sales and margin compression that occurred primarily in our vinyl compounds and specialty resins product groups.

The net loss in 2002 was $58.9 million and included an after-tax charge for the cumulative effect of a change in goodwill accounting of $53.7 million. The 2002 loss before discontinued operations and cumulative effect of a change in accounting was $6.6 million, or $40.5 million better than the comparable amount in 2001. The 2002 loss included special charges of $9.3 million compared with 2001 expense of $35.9 million.

Interest expense increased $1.7 million to $42.4 million for 2002. Impacting 2002 interest expense was the second-quarter issuance of $200 million aggregate principal amount of senior debt at 8.875%, net of the debt retired upon issuance, offset by the favorable impact of interest rate swap agreements. Additionally, the average amount outstanding under the revolving credit facility was reduced in 2002 compared with 2001.

Other expense, net, includes the finance costs associated with the receivables sale facility, foreign currency gains and losses, and other miscellaneous expenses. For 2002, other expense, net, was $9.2 million compared with $6.3 million for 2001. The 2002 increase of $2.9 million in other expense, net, compared with 2001 was due to a litigation settlement gain recognized in 2001. Additionally, for the year ended December 31, 2002, costs associated with the receivables sale facility decreased $3.3 million. The decrease in receivables sale facility costs resulted from lower interest rates in 2002, along with a lower average level of receivables sold during 2002 compared with 2001.

The effective income tax rate benefit in 2002 was 44.1% compared with a benefit of 36.5% in 2001. The benefit was due principally to the effect of permanent differences, such as non-deductible goodwill amortization in 2001.

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." In accordance with this statement, we ceased amortization of all goodwill and indefinite-lived intangible assets. During the first quarter of 2002, we also completed the transitional review for goodwill impairment required under SFAS No. 142. The review indicated that goodwill related to the 1999 acquisition of our Engineered Films operations was impaired as of January 1, 2002. Accordingly, we measured and recognized a pre-tax charge of $54.7 million ($53.7 million after tax) as a cumulative effect of a change in accounting principle. The year 2001 included pre-tax goodwill amortization of $18.0 million ($14.6 million after tax).

BUSINESS SEGMENT INFORMATION

Senior management uses operating income before special items and EBITDA before special items to assess performance and allocate resources to business segments. For a reconciliation from operating income to operating income before special items to EBITDA before special items and EBITDA to EBITDA before special items, see the following table. Operating income before special items and EBITDA before special items are non-GAAP measures, and should not be considered an alternative to any other measure of performance in accordance with GAAP. Senior management presents operating income before special items and EBITDA before special items when discussing the results of operations of the business segments because senior management believes such measures are useful in assessing the underlying earnings power and operating cash flows of each business segment. Special items include gains and losses associated with the specific strategic initiatives such as restructuring or consolidation of operations, gains and losses attributable to divestment of joint ventures, and certain one-time items. Accordingly, senior management believes that excluding special items provides insight into the underlying results of operations of each of PolyOne's business segments. Operating income before special items and EBITDA before special items may not be comparable to financial performance measures presented by other companies.

(In millions)	Year Ended December 31,		
	Reported Results		Pro Forma Results
	2002	2001	2000
Sales:			
Performance Plastics	$ 1,718.8	$ 1,764.6	$ 2,110.2
Elastomers and Performance Additives	363.9	402.6	482.2
Distribution	519.7	462.6	506.7
Resin and Intermediates	--	--	--
Other	(104.2)	(48.7)	(29.9)
	$ 2,498.2	$ 2,581.1	$ 3,069.2
EBITDA before special items:			
Performance Plastics	$ 97.2	$ 119.2	$ 148.4
Elastomers and Performance Additives	23.1	26.8	45.3
Distribution	8.8	2.5	14.6
Resin and Intermediates	11.4	(12.6)	27.9
Other	(16.9)	(15.1)	(11.2)
	$ 123.6	$ 120.8	$ 225.0
Operating income (loss) before special items:			
Performance Plastics	$ 41.5	$ 51.0	$ 71.5
Elastomers and Performance Additives	11.4	10.2	26.5
Distribution	7.0	(0.4)	11.3
Resin and Intermediates	10.6	(12.6)	27.9
Other	(17.6)	(16.6)	(11.2)
	$ 52.9	$ 31.6	$ 126.0
Reconciliation			
Operating income (loss)	$ 38.9	$ (29.5)	$ 113.1
Special items, expense	14.0	61.1	12.9
Operating income before special items	52.9	31.6	126.0
Depreciation and amortization	72.5	89.2	99.0
Accelerated depreciation in special items	(1.8)	-	-
EBITDA before special items	$ 123.6	$ 120.8	$ 225.0
EBITDA	$ 111.4	$ 59.7	$ 212.1
Impact of special items, expense	12.2	61.1	12.9
EBITDA before special items	$ 123.6	$ 120.8	$ 225.0

For additional information regarding reported business segment disclosures, see Note T to the Consolidated Financial Statements.

PERFORMANCE PLASTICS had 2002 sales of $1.7 billion, a decrease of 3% from 2001. A breakdown of 2002 segment sales, by primary product group, is as follows:

	2002 Sales $ % of Total	2002 Sales $ % Change vs. 2001	2002 Shipment Lbs. % Change vs. 2001
North American Plastic Compounds and Colors	56%	-9%	-4%
International Plastic Compounds and Colors	20	15	7
Specialty Resins and Formulators	15	3	4
Engineered Films	9	-4	-3
TOTAL PERFORMANCE PLASTICS	100%	-3%	-1%

The 2002 sales of $1.7 billion were $45.8 million below 2001 and primarily reflect lower sales in North American Plastic Compounds and Colors, partially offset by strong demand in Asia and the favorable euro currency exchange impact, which increased U.S. dollar reported sales by $15.9 million, or 5%. North American Plastic Compounds and Colors has experienced softened demand in nearly all markets for vinyl, in addition to lower average selling prices compared with 2001. Vinyl compound volumes declined 6% while sales revenue declined 8% during 2002, with the most notable product platform deterioration occurring within the wire and cable applications. Contributing to the lower 2002 sales was some loss in market share in the North American color and additive concentrate and vinyl compound markets. The market share loss in the vinyl compound market resulted both from defending selling price and customers taking production in house.

EBITDA before special items was $97.2 million in 2002, a decrease of $22.0 million from 2001, reflecting lower segment sales and lower vinyl compound and specialty resin margins, partially offset by the impact of strategic value capture initiatives in addition to economy-driven cost reduction programs totaling $10 million to $12 million. In 2002, seven plants within the Performance Plastics business segment were closed as part of PolyOne's restructuring initiatives.

ELASTOMERS AND PERFORMANCE ADDITIVES sales in 2002 were $363.9 million, a decrease of $38.7 million, or 10%, from 2001. The decline in year-over-year sales was the result of lower sales volumes in the compounding and tire-tolling platforms. Within compounding, approximately one-half of the sales volume decrease was due to customers taking production back in house, while another one-third of the sales volume decrease was due to low-margin business for which PolyOne chose not to compete. In addition, we lost approximately $3 million of sales in Canada as a result of closing our Canadian facility in the fourth quarter of 2001.

MANAGEMENT'S ANALYSIS - RESULTS OF OPERATIONS

EBITDA before special items was $23.1 million in 2002, a $3.7 million decrease from 2001, resulting largely from the aforementioned sales declines, partially offset by the full-year savings from the plant facility shutdowns in the second half of 2001.

DISTRIBUTION sales in 2002 were $519.7 million, an increase of $57.1 million, or 12%, from 2001. The sales improvements resulted largely from using our Distribution business segment for small-volume sales of our vinyl compounds instead of relying on a third-party distributor.

EBITDA before special items for 2002 was $8.8 million compared with $2.5 million for 2001. The improvement in 2002 EBITDA before special items compared with 2001 was due principally to increased sales volumes in this volume-sensitive business and improved material margins in the first half of 2002.

RESIN AND INTERMEDIATES operating income before special items for 2002 was $10.6 million, an increase of $23.2 million from 2001, resulting from higher Oxy Vinyls, LP (OxyVinyls) earnings of $25.2 million. Average industry PVC resin market selling prices were approximately $0.015 per pound higher in 2002 compared with 2001, with the average industry resin spread over raw material costs increasing a similar amount as lower ethylene costs offset higher chlorine costs. Also, OxyVinyls' earnings were reduced by lower average industry caustic soda selling price of approximately $120 per ton, while lower average natural gas costs of approximately $1 per million BTU added to earnings.

OTHER consists primarily of corporate governance costs that are not allocated to business segments and inter-segment profit elimination. EBITDA before special items for the year was a loss of $16.9 million compared with a loss of $15.1 million for 2001. The year 2002 includes the elimination of a $1.1 million pre-tax inter-segment profit in the Distribution business segment's inventories related primarily to PolyOne vinyl compounds.

2001 RESULTS OF OPERATIONS

REPORTED RESULTS PolyOne's total sales for 2001 were $2.6 billion, an increase of $719.8 million from 2000. This increase was due to only four months of former Hanna operations being included in the 2000 reported sales. Year 2001 sales were below 2000 on a comparable basis; see the pro forma commentary that follows.

Operating earnings for 2001 amounted to a loss of $29.5 million compared with income of $63.9 million in 2000. Operating earnings in 2001 included special charges of $61.1 million, and in 2000 included special charges of $16.7 million. The $44.4 million increase in special items related primarily to significant 2001 restructuring initiatives. EBITDA before considering special items decreased by $16.8 million compared with 2000 on the same basis. This decrease in 2001 earnings was due primarily to an earnings decrease of $40.5 million from the Resin and Intermediates business segment, which was partially offset by a full year's inclusion of the former Hanna operations.

Interest expense increased over the prior year, due primarily to only four months of the debt assumed in the Hanna acquisition being included in the 2000 reported results, net of a decline in interest expense associated with a reduction in the average amounts outstanding under our revolving credit facility during 2001. Interest income remained relatively flat with the prior year. Other expense increased due to the increased use of our receivables sale facility, which accounted for an increase in expense of $2.3 million.

The net loss in 2001 was $46.1 million. Before discontinued operations, the loss was $47.1 million compared with income of $15.2 million in 2000. The 2001 net loss included after-tax expense from special items totaling $35.1 million, which was an expense increase of $26.8 million from 2000. The effective income tax rate in 2001 was a benefit of 36.5% compared with expense of 38.2% in 2000. The lower effective income tax rate reflected principally the effect of permanent differences such as non-deductible goodwill on pre-tax losses.

PRO FORMA RESULTS Total sales for 2001 were $2.6 billion, a decrease of $488.1 million, or 16%, from pro forma results for 2000. Decrease in customer sales demand in 2001 reflected the substantial weakening of the North American economy across all business segments. PolyOne was particularly impacted by the industrial, automotive, electronic and some construction markets. Automotive production was down 10% (domestic producers were even weaker) in 2001 compared with 2000. Industrial production fell 4.3% in 2001 compared with the prior year. Average U.S. industrial capacity utilization in 2001 fell to 77%, five percentage points below 2000, and reached the lowest level since 1983 in the fourth quarter of 2001. Management estimated that operating income in 2001 was down approximately $135 million as a direct result of the sales volume decline from 2000.

The operating loss in 2001 was $29.5 million. The operating loss included 2001 special charges of $61.1 million, or $48.2 million more than the 2000 pro forma expense. EBITDA before considering special items decreased by $104.2 million compared with 2000 on the same basis. This decrease in 2001 earnings was driven by lower sales volumes (approximately $135 million) across all business segments and weaker results in the equity earnings of the Resin and Intermediates business segment, partially offset by cost-reduction initiatives associated with the merger integration and announced restructuring programs (estimated at approximately $69 million). The 2001 loss before discontinued operations was $47.1 million, $97.9 million below the comparable pro forma amount in 2000. The 2001 net loss included after-tax expense from special items

of $35.1 million, which was an expense increase of $39.8 million from pro forma
results of 2000.

PERFORMANCE PLASTICS had 2001 sales of $1.8 billion, a decrease of $345.6 million, or 16%, from pro forma 2000. A breakdown of 2001 segment sales, by primary product group, is as follows:

	2001 Sales $ % of Total	2001 Sales $ % Change vs. 2000	2001 Shipment Lbs. % Change vs. 2000
North American Plastic Compounds and Colors	57%	-20%	-19%
International Plastic Compounds and Colors	20	-7	-3
Specialty Resins and Formulators	14	-11	-12
Engineered Films	9	-15	-16
TOTAL PERFORMANCE PLASTICS	100%	-16%	-16%

Total Performance Plastics 2001 sales declines were driven by general economic weakness. Sales were also affected in International Plastic Compounds and Colors by unfavorable euro currency exchange of approximately 3%. Engineered Films was severely impacted by the decline in automotive production, as was Specialty Resins and Formulators, but to a lesser extent. Slowdown in certain residential construction markets impacted sales, such as Specialty Resins in flooring and North American Plastic Compounds and Colors in windows and other residential applications. In addition, the electronics market affected PolyOne globally with lower sales in wire and cable and business machines. In North American Plastic Compounds and Colors and Europe, the wire and cable business was also severely impacted by changes in the telecommunications industry. As a result, sales in the North American wire and cable market were down approximately 25% year over year. Due to economy-related price pressure from competitors, PolyOne decided to give up business and market share in some market segments rather than match price, but the impact of this decision was relatively small.

EBITDA before special items in 2001 was $119.2 million, a decrease of $29.2 million from pro forma 2000 results. The decrease in earnings was driven primarily by the substantial decline in sales volume, partially offset by cost-saving initiatives. In 2001, three plants within Performance Plastics were closed in connection with PolyOne's restructuring initiatives.

ELASTOMERS AND PERFORMANCE ADDITIVES sales in 2001 were $402.6 million, a decrease of $79.6 million, or 17%, from pro forma 2000. The decrease in 2001 sales was driven primarily by reduced domestic demand from producers of automotive parts, which impacted both the elastomers and additives markets. Of the 17% year-over-year change, 2% was due to reduced tolling of rubber compounds for tires and the remaining 15% was due primarily to lower volumes related to the automotive and industrial markets. Moreover, the impact of lower automotive production was exacerbated by PolyOne's relatively strong market share with Ford, General Motors and DaimlerChrysler, which collectively lost market share in the North American market in 2001.

EBITDA before special items in 2001 was $26.8 million, a decline of $18.5 million compared with pro forma 2000. Cost-saving initiatives, including the "lean" manufacturing initiative, reduced costs, but were not sufficient to offset the adverse earnings impact from the sales volume declines previously noted. During 2001, three manufacturing plants were closed in this business segment.

DISTRIBUTION had sales in 2001 of $462.6 million, a decrease of $44.1 million, or 8.7%, from pro forma 2000. The decrease resulted primarily from lower sales volumes (6.7%) in North America and from passing of lower material costs to customers. The Mexican operations' sales, which account for approximately 9% of this business segment's sales, increased in 2001 by 2% compared with 2000. EBITDA before special items in 2001 was $2.5 million, a decrease of $12.1 million from pro forma 2000. The decrease in earnings was driven by lower sales volumes and margin erosion, including losses of $1.3 million attributed to the sale of non-prime inventories.

RESIN AND INTERMEDIATES operating earnings before special items, consisting of equity income from equity affiliates and allocated overhead support cost and cost associated with past operations, were a loss of $12.6 million in 2001, or a decrease of $40.5 million from 2000. The 2001 equity earnings, before a $4.3 million charge for employee severance and liabilities associated with the temporary idling of a plant, decreased $34.1 million from 2000 levels for OxyVinyls and $9.4 million from 2000 levels for SunBelt Chlor-Alkali Partnership (SunBelt). The decreases in equity earnings were driven by lower average industry PVC resin and chlor-alkali selling prices and higher energy costs for OxyVinyls in 2001.

The domestic PVC resin industry capacity utilization in 2001 was 86% compared with 91% in 2000. The domestic PVC resin industry average selling price decreased by $0.07 per pound year over year; however, due largely to lower ethylene and chlorine costs, the 2001 PVC resin industry spread (selling prices less the cost of ethylene and chlorine) was generally flat compared with 2000. PolyOne's equity earnings were negatively impacted by lower PVC resin spreads due to OxyVinyls' customer/product mix in 2001. OxyVinyls' 2001 combined pricing of the co-products caustic soda and chlorine decreased approximately 5% from 2000. In 2001 compared with 2000, energy costs adversely impacted OxyVinyls' equity earnings by approximately $5 million.

OTHER consisted primarily of corporate governance costs not allocated to the business segments. These unallocated costs before special items were $16.6 million in 2001 compared with $11.2 million in 2000. PolyOne's 2001 corporate

costs incurred decreased more than 20% from 2000 pro forma costs.

MANAGEMENT'S ANALYSIS - RESULTS OF OPERATIONS

SUMMARY OF SPECIAL ITEMS

(In millions, except per share data)	Year Ended December 31,			
	Reported Results			Pro Forma Results
	2002	2001	2000	2000
Employee separation and plant phaseout costs (1)	$ (1.1)	$(36.1)	$ (2.8)	$(2.8)
Period plant phaseout costs incurred (2)	(1.1)	(0.2)	--	--
Equity affiliate - employee severance, liabilities associated with the temporary idling of a plant, and facility asset writeoff and decommissioning costs (3)	(4.9)	(9.4)	--	--
Merger and integration costs (4)	--	(5.9)	(9.5)	(8.5)
Loss on divestiture of equity investments (5)	(5.1)	(9.5)	--	--
Acquired profit in inventory	--	--	(2.8)	--
Directors' pension termination	--	--	(0.8)	(0.8)
Writeoff of debt placement cost	--	--	(0.8)	(0.8)
Subtotal - EBITDA (expense)	(12.2)	(61.1)	(16.7)	(12.9)
Plant phaseout accelerated depreciation (2)	(1.8)	--	--	--
Subtotal - operating (loss)	(14.0)	(61.1)	(16.7)	(12.9)
Investment writedown	(0.8)	(0.6)	--	--
Litigation settlement gain	--	4.1	--	--
Other restructuring costs	--	--	(0.6)	(0.6)
Total - pre tax (expense)	(14.8)	(57.6)	(17.3)	(13.5)
Income tax benefit	5.5	21.7	6.7	5.4
German tax rate reduction	--	--	1.5	1.5
Hanna reversal of income tax reserve	--	--	--	10.5
Total - after-tax income (expense)	$ (9.3)	$(35.9)	$ (9.1)	$ 3.9
Diluted earnings per share impact, income (expense)	$(0.10)	$(0.40)	$(0.15)	$0.04

(1) These costs include severance, employee outplacement, external outplacement consulting, lease termination, facility closing costs and the writedown of the carrying value of plants and equipment related to restructuring initiatives associated with former Geon operations. In connection with the acquisition of Hanna and resulting formation of PolyOne, management developed several initiatives to capture the strategic value of the combined former Geon and former Hanna businesses. Included in the initiatives were the closing of excess manufacturing capacity of the Elastomers business and the establishment of Centers of Manufacturing Excellence within the North American Plastic Compounds and Colors operations. This resulted in several announcements in 2001 that five former Geon plants and 12 former Hanna plants would be closed. The initiatives also included the termination of corporate and other positions at former Geon and former Hanna locations. The plans and activities related to the former Geon plants and personnel were finalized and approved during 2001. The costs related to the former Geon activities were classified as employee separation and plant phaseout. The 2002 expense was associated with the consolidation of certain activities related to the Formulator operations in the Performance Plastics business segment, which resulted in 43 employees being terminated in 2002.

(2) These are plant and phaseout costs associated with the Geon restructuring initiatives described in (1) above that are to be recognized as period costs versus when the restructuring initiatives were approved.

(3) The year 2002 costs include PolyOne's share of OxyVinyls' employee severance and liabilities associated with the temporary idling of a plant in December 2001, plus the 2002 asset writeoff and decommissioning costs related to the permanent closing of specific production assets included in the idled plant. The costs in 2001, in addition to OxyVinyls' costs and liabilities associated with the temporary idling of a plant, included other OxyVinyls employee severance costs and Australian Vinyls Corporation's (AVC) employee severance and restructuring costs.

(4) These costs were a direct result of the acquisition of Hanna and the formation of PolyOne, and relate primarily to the executive separation costs for former Geon executives resulting from employment change-in-control provisions triggered by the formation of PolyOne, and severance costs paid to former Geon employees terminated as a result of the formation of PolyOne.

(5) This item is the loss on our sale of our 37.4% investment in the PVC resin operations of AVC of $1.5 million in 2002 and $9.5 million in 2001. AVC was a joint venture with Orica Limited that had PVC resin and PVC compounding operations. The compounding operations of AVC were transferred to a newly formed joint venture that has the same ownership percentages as AVC. We and Orica then sold our interests in AVC, as announced on January 11, 2002, and we recognized a loss on the sale of the investment. Additionally, in December 2002, PolyOne recognized a pre-tax impairment loss on its investment in Techmer PM, LLC, an unconsolidated equity investment (owned 51%) of $3.6 million, in connection with the pending sale of our investment

in Techmer PM, LLC.

12 POLYONE CORPORATION

- - CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)	Year Ended December 31,		
	2002	2001	2000
Sales	$2,498.2	$2,581.1	$1,861.3
Operating costs and expenses:			
Cost of sales	2,098.2	2,162.4	1,577.1
Selling and administrative	302.6	297.7	189.1
Depreciation and amortization	72.5	89.2	56.6
Employee separation and plant phaseout	1.1	36.1	2.8
Merger and integration costs	--	5.9	9.5
Loss on divestiture of equity investment	5.1	9.5	--
(Income) loss from equity affiliates and minority interest	(20.2)	9.8	(37.7)
	2,459.3	2,610.6	1,797.4
Operating income (loss)	38.9	(29.5)	63.9
Interest expense	(42.4)	(40.7)	(36.3)
Interest income	0.9	2.3	1.6
Other expense, net	(9.2)	(6.3)	(4.6)
Income (loss) before income taxes, discontinued operations and cumulative effect of a change in accounting	(11.8)	(74.2)	24.6
Income tax (expense) benefit	5.2	27.1	(9.4)
Income (loss) before discontinued operations and cumulative effect of a change in accounting	(6.6)	(47.1)	15.2
Discontinued operations:			
Income from operations and loss on sale, net of income taxes	1.4	1.0	0.7
Cumulative effect of a change in accounting, net of income taxes	(53.7)	--	--
Net income (loss)	$ (58.9)	$ (46.1)	$ 15.9
Earnings (loss) per common share:			
Basic earnings (loss):			
Before discontinued operations and cumulative effect of a change in accounting	$ (0.07)	$ (0.52)	$ 0.25
Discontinued operations	0.01	0.01	0.01
Cumulative effect of a change in accounting	(0.59)	--	--
Basic earnings (loss) per share	$ (0.65)	$ (0.51)	$ 0.26
Diluted earnings (loss):			
Before discontinued operations and cumulative effect of a change in accounting	$ (0.07)	$ (0.52)	$ 0.25
Discontinued operations	0.01	0.01	0.01
Cumulative effect of a change in accounting	(0.59)	--	--
Diluted earnings (loss) per share	$ (0.65)	$ (0.51)	$ 0.26
Weighted-average shares used to compute earnings per share:			
Basic	90.8	89.8	61.4
Diluted	90.8	89.8	62.0

See Notes to Consolidated Financial Statements.

- - CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)	December 31, 2002	December 31, 2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 41.4	$ 18.2
Accounts receivable (less allowance of $12.3 in 2002 and $9.5 in 2001)	164.3	135.6
Inventories	253.7	255.3
Deferred income tax assets	42.1	40.2
Other current assets	12.7	27.9
TOTAL CURRENT ASSETS	514.2	477.2
Property, net	682.1	683.6
Investment in equity affiliates	271.8	287.9
Goodwill, net	444.0	476.3
Other intangibles assets, net	32.8	61.0
Other non-current assets	52.6	65.5
TOTAL ASSETS	$1,997.5	$2,051.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term bank debt	$ 0.7	$ 14.7
Accounts payable, including amounts payable to related party (see Note P)	242.0	311.4
Accrued expenses	160.2	161.0
Current portion of long-term debt	91.0	4.6
TOTAL CURRENT LIABILITIES	493.9	491.7
Long-term debt	492.2	426.8
Deferred income tax liabilities	39.0	63.2
Post-retirement benefits other than pensions	122.5	126.2
Other non-current liabilities including pensions	261.2	214.5
Minority interest in consolidated subsidiaries	9.0	15.7
TOTAL LIABILITIES	1,417.8	1,338.1
SHAREHOLDERS' EQUITY		
Preferred stock, 40.0 shares authorized, no shares issued	--	--
Common stock, $0.01 par, authorized 400.0 shares, issued 122.2 in 2002 and 2001	1.2	1.2
Additional paid-in capital	1,069.5	1,072.7
Retained earnings	18.7	100.3
Common stock held in treasury, 30.5 shares in 2002 and 31.2 shares in 2001	(341.1)	(350.1)
Share ownership trust	(1.8)	(5.3)
Accumulated other non-owner equity changes	(166.8)	(105.4)
TOTAL SHAREHOLDERS' EQUITY	579.7	713.4
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,997.5	$2,051.5

See Notes to Consolidated Financial Statements.

MD&A:

MANAGEMENT'S ANALYSIS - CONSOLIDATED BALANCE SHEETS

At December 31, 2002, PolyOne had total shareholders' equity of $579.7 million, which was a decrease of $133.7 million from December 31, 2001. The decrease in equity in 2002 was due primarily to a change in accounting method in the amount of $53.7 million, an adjustment to the minimum pension liability in the amount of $60.5 million and dividends paid in the amount of $22.7 million.

ASSETS

Total assets were $1.998 billion at December 31, 2002, a decrease of $54.0 million from December 31, 2001. The decrease was driven by the writeoff of goodwill of $54.7 million recognized for the adoption of SFAS No. 142. The adoption of SFAS No. 142 also resulted in the reclassification of the workforce intangible asset of $25.2 million at December 31, 2001 to goodwill, net of deferred taxes, in 2002. The 2002 sale of Softer and the acquisition of Transformacion de Pigmentos y Colorantes, S.A. (Transcolor) also resulted in a net decrease of $56.7 million in assets as of December 31, 2002 compared with December 31, 2001. However, as of December 31, 2002, we had sold $57.6 million less of accounts receivable compared with December 31, 2001.

LIABILITIES AND EQUITY

At December 31, 2002, short-term bank debt was $0.7 million compared with $14.7 million at December 31, 2001. The balance sheet long-term debt, including current portion and capital leases, totaled $583.2 million at December 31, 2002 compared with $431.4 million at December 31, 2001. As of December 31, 2002, $91.0 million of the long-term debt is due in 2003.

In 2002, PolyOne amended its revolving credit facility twice. The amendments reduced the commitments under the revolving credit facility to $125 million and secured any obligations under the revolving credit facility. Our obligations under the revolving credit facility are guaranteed by some of our domestic subsidiaries. There were no borrowings outstanding under the facility at December 31, 2002.

In April 2002, PolyOne completed a private placement of $200 million aggregate principal amount of 8.875% senior notes due in 2012 to certain institutional investors. Subsequently, PolyOne registered with the Securities and Exchange Commission an offer to exchange the senior notes for registered senior notes, which became effective in July 2002. A portion of the proceeds was used to repay a loan held by a German subsidiary of PolyOne. The senior notes rank equally with all of PolyOne's other senior unsecured indebtedness.

Other significant changes in liabilities as of December 31, 2002 compared with December 31, 2001 include a decrease of $69.4 million in accounts payable. The decrease in accounts payable resulted from a reduction in the days of payables outstanding as of December 31, 2002. In addition, other non-current liabilities increased $46.7 million, due primarily to an adjustment increasing the accrued minimum pension liability.

In September 2000, PolyOne's Board of Directors authorized the purchase of up to 9.6 million, or approximately 10%, of PolyOne's outstanding common shares. Through December 31, 2000, PolyOne repurchased 2.6 million shares at an average cost of $7.15 per share. No common shares were repurchased in 2001 or 2002. Also, PolyOne paid $22.9 million in cash dividends to its shareholders in 2001 and $22.7 million in cash dividends to its shareholders in 2002.

ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires PolyOne's management to make estimates, judgments and assumptions in certain circumstances that affect amounts reported in the accompanying Consolidated Financial Statements. On an ongoing basis, PolyOne evaluates the accounting policies and estimates it uses to prepare financial statements. PolyOne bases its estimates on historical experience and assumptions believed to be reasonable under certain facts and circumstances. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements related to the accounting policies and estimates described in the text that follows. The application of these critical accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. For additional information regarding our accounting policies, see Note C to the Consolidated Financial Statements.

ENVIRONMENTAL ACCRUED LIABILITY PolyOne has accrued $52.3 million to cover future environmental remediation expenditures, and believes that none of these matters, either individually or in the aggregate, will have a material adverse effect on its capital expenditures, earnings, cash flow or liquidity. The accrual represents PolyOne's best estimate of the remaining probable remediation costs based upon information and technology currently available. PolyOne's estimate of the liability may be revised as new regulations, or technologies or additional information is obtained. For additional information regarding the environmental accrued liability, see Note P to the Consolidated Financial Statements.

RESTRUCTURING ACCRUALS PolyOne has recorded accruals in connection with restructuring its businesses, as well as the integration of acquired businesses. These accruals principally include estimates related to employee separation

costs, the closure and/or consolidation of facilities, contractual obligations and the valuation of certain assets including property, plant and equipment, and inventories. Actual amounts could differ from the original estimates.

Restructuring-related accruals are reviewed on a quarterly basis and changes to the initial plans are appropriately recognized when identified. Changes to plans associated with restructuring existing businesses are generally recognized as employee separation and plant phaseout costs in the period the change occurs. Under EITF 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," changes to plans associated with the integration of acquired businesses are recognized as an adjustment to the acquired business' original purchase price (goodwill) if recorded within one year of the acquisition. After one year, a reduction of goodwill is recorded if the actual costs incurred are less than the original reserve. More than one year subsequent to an acquisition, if the actual costs incurred exceed the original reserve, the excess is recognized as an employee separation and plant phaseout cost. No such changes occurred during 2002.

In 2001, PolyOne announced several manufacturing improvements and restructuring plans to close 17 U.S. and Canadian facilities. As of December 31, 2002, all but four of these facilities were closed. Three of the remaining facilities are projected to cease operations by mid-2003. In January 2003, we decided to continue operating the fourth facility. Accordingly, in the first quarter of 2003, the reserve of approximately $1 million associated with this facility (which relates to an acquired business) will be reversed and recognized as a reduction to goodwill of the acquired business.

As of December 31, 2002, an accrued liability of $20.1 million related to the 2001 restructuring initiatives, adjusted for the January 2003 revision, remained for future employee severance and cash plant closing costs, which are projected to be paid in 2003. In addition, at the end of 2002, the net property carrying value to be realized for the plants closed or to be closed was $17 million (some assets will be transferred to other locations as production ceases).

In 2002, Formulator operations in the Performance Plastics business segment consolidated certain activities, which resulted in the termination of 43 employees. As of December 31, 2002, all costs relating to this consolidation, totaling $1.1 million, had been incurred and no accrual remained.

On January 14, 2003, PolyOne announced a restructuring plan whereby it would eliminate approximately 400 salaried positions, primarily in administrative functions. PolyOne projects this reduction will lower selling and administrative costs by $30 million to $35 million annually, starting in the second quarter of 2003. PolyOne expects nearly all staff reductions to occur in the first quarter of 2003. We project the total pre-tax first-quarter 2003 earnings charge from this restructuring effort will be approximately $22 million.

EQUITY INVESTMENT In December 2001, OxyVinyls, of which PolyOne owns 24% interest, announced the temporary idling of its Deer Park, Texas, chlor-alkali plant due to low industry capacity utilization and low product market selling prices. As of December 31, 2001, OxyVinyls had accrued $13.8 million for future employee severance and liabilities associated with the temporary idling of the Deer Park plant. In 2002, OxyVinyls recognized an additional $2.2 million of expense associated with the temporary plant idling, plus an additional expense of $17.0 million in the third quarter related to the permanent closing of specific production assets included in the idled plant. The permanent closing costs included $14.5 million for the impairment of the fixed assets as well as $2.5 million for decommissioning costs. As of December 31, 2002, OxyVinyls had a remaining accrual of $4.7 million for future employee severance liabilities and decommissioning costs. The plant had a net property carrying value by OxyVinyls at the end of 2002 of approximately $122.5 million, which is anticipated to be realized through future operations upon the restart of the plant. Although chlorine demand in all major market segments increased steadily in 2002, particularly vinyl chloride monomer (VCM), domestic demand for co-product caustic soda was flat year over year and exports from the U.S. declined. OxyVinyls will maintain the Deer Park chlor-alkali plant in a standby mode pending further strengthening in overall economic conditions and improved demand for caustic soda.

GOODWILL As of December 31, 2002, PolyOne had $444.0 million of goodwill resulting from the acquisition of businesses. New accounting standards adopted in 2002 required an initial review of goodwill for impairment and the cessation of all goodwill amortization. In making the goodwill impairment assessment, management relies on a number of factors, including operating results, business plans, projections, anticipated future cash flows, transactions and marketplace data. Changes in forecasted operations and changes in discount rates can materially affect these estimates. There are inherent uncertainties related to these factors and management's judgments in applying them to the analysis of goodwill impairment. Because management's judgment is involved in performing goodwill valuation analysis, there is risk that the carrying value of our goodwill may be overstated or understated. As announced in April 2002, the adoption of the new rules resulted in an impairment of our recorded goodwill of $54.7 million ($53.7 million after tax).

In addition to the transitional impairment assessment, an annual assessment is required for all reporting units. We have elected to make July 1 the annual assessment date. We determined that there was no additional goodwill impairment impact as of the annual assessment on July 1, 2002 or through December 31, 2002. However, the occurrence of a potential indicator of impairment, such as a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel or

a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed of, would result in our having to perform another first-step valuation analysis, as required under SFAS No. 142, for some or all of our reporting units prior to the required 2003 annual assessment. These types of events and the resulting analysis could result in additional charges for goodwill and other asset impairments in the future. Any future goodwill impairment could result in violation of financial ratios required by our debt agreements.

DEFERRED TAX BENEFIT FOR OPERATING LOSS CARRYFORWARDS As of December 31, 2002, PolyOne had a net deferred tax asset of $3.1 million, which relates to foreign operations. The net U.S. deferred taxes at the end of 2002 were zero after the recording of a valuation allowance against the 2002 increase in the deferred tax asset resulting from an increase in the minimum pension liability. Deferred tax assets include $109.2 million for operating loss carryforwards for tax purposes. For additional information regarding PolyOne's deferred tax benefit, see Note R to the Consolidated Financial Statements.

Deferred tax assets are reviewed for realization and a valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

PENSIONS AND POST-RETIREMENT BENEFITS The measurement of liabilities related to pension plans and other post-retirement benefit plans is based on management's assumptions related to future events, including interest rates, return on pension plan assets, compensation increases and health care cost trend rates. The discount rates used to determine the present value of future benefits are based on yields of investment grade AA quality or better fixed-income securities. The weighted-average discount rate used to value pension plan and post-retirement obligations was 6.75% at December 31, 2002 compared with 7.25% at December 31, 2001. Annual expense amounts are determined based on the discount rate at the end of the prior year. The expected rate of return on pension assets is designed to be a long-term assumption that will not be subject to year-to-year variability. The rate for computing 2002 and 2001 expense was 9.0%. PolyOne has reduced the assumed long-term rate on pension assets for 2003 to 8.75%. During 2002, the fair market value of pension plan assets decreased. Actual pension plan asset performance will either reduce or increase unamortized losses, which will ultimately affect net income. The rate of compensation increase for 2002 and 2001 was 4% to 7%, averaging approximately 4.25%, and reflects the average projected future increases over the next five years.

The rate of increase in medical costs over the next five years was increased to reflect both actual experience and projected expectations. The health care cost trend rate assumption has a significant effect on the amounts reported. Employees hired after December 31, 1999 are not eligible to participate in the post-retirement plan.

The overall effect of these assumption changes will be to increase pension and post-retirement expenses in fiscal 2003 to an estimated $36 million from $25.0 million in 2002.

CONTINGENCIES PolyOne is subject to various investigations, claims, and legal and administrative proceedings covering a wide range of matters that arise in the ordinary course of business activities. Any liability that may result from these proceedings, and any liability that is judged to be probable and estimable, has been accrued. Any potential liability not accrued is not currently expected to have a material adverse effect on PolyOne's future financial position, net income or cash flows.

STOCK OPTIONS GRANTED TO EMPLOYEES In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," was issued by the Financial Accounting Standards Board. SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition when a company voluntarily changes to the fair value-based method of recognizing expense in the income statement for stock-based employee compensation, including stock options granted to the employees. As allowed by SFAS No.123, PolyOne adopted the disclosure-only provisions of the standard and does not recognize expense for stock options granted to employees.

- - CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Year Ended December 31,		
	2002	2001	2000
OPERATING ACTIVITIES			
Net income (loss)	$(58.9)	$ (46.1)	$ 15.9
Cumulative effect of a change in accounting	(53.7)	--	--
Income from discontinued operations	1.4	1.0	0.7
Income (loss) from continuing operations	(6.6)	(47.1)	15.2
Adjustments to reconcile net income (loss) to net cash provided by operating activities of continuing operations:			
Employee separation and plant phaseout charges	1.1	36.1	2.8
Cash payments on employee separation and plant phaseout	(17.0)	(23.8)	(5.0)
Depreciation and amortization	72.5	89.2	56.6
Realized currency gains (losses)	(13.0)	(0.8)	7.9
Investment writedown and loss on sale of equity affiliate	5.1	9.5	--
Companies carried at equity and minority interest:			
(Income) loss	(20.2)	9.8	(37.7)
Dividends and distributions received	37.4	4.2	26.2
Provision (benefit) for deferred income taxes	(12.7)	(29.2)	8.3
Changes in assets and liabilities:			
Operating working capital:			
Trade accounts receivable	(38.6)	188.8	87.2
Inventories	0.8	76.7	22.8
Accounts payable	(64.5)	1.4	(41.7)
Accrued expenses and other	23.0	(11.4)	(54.4)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	(32.7)	303.4	88.2
INVESTING ACTIVITIES			
Capital expenditures	(75.1)	(78.1)	(60.7)
(Investment in) return of capital by equity affiliates, net	(6.8)	1.3	7.1
Business acquisitions, net of cash acquired	(11.4)	--	(2.4)
Proceeds from sale of assets	14.7	4.4	44.2
Cash received in connection with consolidation of M.A. Hanna Company, net of transaction costs paid	--	--	28.1
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(78.6)	(72.4)	16.3
FINANCING ACTIVITIES			
Change in short-term debt	(5.8)	(230.2)	(4.9)
Net issuance (repayment) of long-term debt	149.6	(0.9)	(79.5)
Termination of interest rate swap agreements	8.3	4.3	--
Proceeds from the exercise of stock options	7.0	--	--
Net proceeds from issuance of common stock	--	--	0.6
Repurchase of common stock	--	--	(18.7)
Dividends	(22.7)	(22.9)	(14.9)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	136.4	(249.7)	(117.4)
NET CASH PROVIDED (USED) BY DISCONTINUED OPERATIONS	1.4	(0.1)	--
Effect of exchange rate changes on cash	(3.3)	(0.9)	(0.4)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23.2	(19.7)	(13.3)
Cash and cash equivalents at beginning of year	18.2	37.9	51.2
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 41.4	$ 18.2	$ 37.9

See Notes to Consolidated Financial Statements.

CASH FLOWS

The 2002 and 2001 statements of cash flows are those of PolyOne. The 2000 statement of cash flows comprises eight months' operation of Geon and four months' operation of PolyOne.

Operating activities of continuing operations utilized $32.7 million of cash in 2002, a $336.1 million change from 2001 operating activities. The 2002 utilization of cash was driven by a $46.5 million increase in commercial working capital (trade accounts receivable before receivables sold, FIFO inventories and accounts payable). Excluding business acquisitions and divestments, the increase in commercial working capital was $59.9 million, consisting of a decrease in accounts payable of $64.5 million and a reduction of trade accounts receivable and inventory of $4.6 million. The 2002 versus 2001 decrease in cash from operating activities of $336.1 million related largely to changes in operating working capital, which included a $175.1 million swing in the level of accounts receivable sold. Additionally, the inventory reduction in 2001 was essentially maintained in 2002 and the days of accounts payable outstanding at December 31, 2002 were reduced from December 31, 2001. Other 2002 uses of cash included $17.0 million in cash payments related to employee separation and plant phaseout obligations and a decrease of $57.6 million in the utilization of the receivables sale facility. Partially offsetting the 2002 uses of cash were $70.4 million of earnings before discontinued operations and change in accounting and depreciation and amortization, net of income from equity affiliates and minority interests, dividends and distributions received, and deferred taxes. In 2001, net cash from continuing operating activities totaled $303.4 million, and resulted primarily from a commercial working capital (trade receivables before the receivables sale facility, FIFO inventories and accounts payable) decrease of $156.0 million due to 2001 management initiatives, lower fourth-quarter sales and an increase of $117.5 million in the receivables sale facility.

Investing activities for continuing operations in 2002 used $78.6 million, consisting primarily of capital expenditures of $75.1 million and the acquisition of Transcolor, offset by cash proceeds from the sale of Softer and other assets. Nearly half of the capital spending is associated with the North American Plastic Compounds and Colors manufacturing restructuring and the new business information system. Investing activities in 2001 consisted primarily of capital expenditures of $78.1 million.

Financing activities of continuing operations in 2002 consisted largely of an increase in long-term debt from the April 2002 issuance of $200 million aggregate principal amount of 8.875% senior notes due in 2012, partially offset by the funds used to repay a loan held by one of our German subsidiaries. Additionally, dividends of $22.7 million were paid and net proceeds of $7.0 million were received from the exercise of stock options. In 2001, financing activities included the reduction of short-term debt of $230.2 million and the payment to shareholders of dividends totaling $22.9 million.

CAPITAL RESOURCES AND LIQUIDITY

The following table summarizes PolyOne's obligations related to long-term debt, leases and guarantees as of December 31, 2002:

	Payments Due by Period				
(In millions)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	$583.0	$ 90.9	$148.7	$39.7	$303.7
Capital lease obligations	0.2	0.1	0.1	--	--
Operating leases	50.1	16.6	23.0	5.4	5.1
Standby letters of credit	26.2	24.4	1.8	--	--
Guarantees	142.4	57.1	18.3	12.2	54.8
TOTAL LONG-TERM DEBT, LEASE AND GUARANTEE OBLIGATIONS	$801.9	$189.1	$191.9	$57.3	$363.6

As of December 31, 2002, PolyOne had existing facilities to access capital resources (receivables sale facility, revolving credit facility, uncommitted short-term credit lines, and senior unsecured notes and debentures) totaling approximately $959 million. As of December 31, 2002, PolyOne had utilized approximately $744 million of these facilities (long-term debt of $583.0 million, short-term debt of $0.7 million, capital leases of $0.2 million and receivables sold of $159.9 million), including $573 million of senior unsecured notes and debentures, of which $87.8 million is payable in September 2003 and, therefore, is classified as a current liability. The effective available funds under these facilities can vary, depending on the level of qualified receivables outstanding, ratings on senior unsecured notes and debentures, and debt-related financial ratios.

In December 2002, PolyOne's public debt rating was placed under review for possible downgrade by Moody's Investors Service (Moody's). On March 3, 2003, Moody's downgraded the senior unsecured debt of PolyOne to Ba3 from Baa3. This downgrade places PolyOne's debt rating by Moody's into a non-investment-grade category. In January 2003, Standard & Poor's (S&P) affirmed its BB+ rating, the highest non-investment-grade category within S&P. Both Moody's and S&P ratings

carry a negative outlook. The current public debt ratings do not affect the revolver, uncommitted short-term lines of credit, or outstanding fixed-debt pricing or covenants. After June 30, 2003, the receivables sale facility could be terminated should PolyOne's senior unsecured debt receive a rating below BB- by S&P or a rating below Ba3 by Moody's.

As of March 28, 2002, PolyOne's revolving credit facility was amended and restated to require that we secure any obligations under the revolving credit facility effective upon the issuance of our $200 million 8.875% senior notes. The revolving credit facility was further amended on December 26, 2002. This amendment effectively waived compliance requirements with the financial ratio covenants of the facility for the fourth quarter of 2002, reduced credit available to PolyOne under the facility from $150 million to $125 million and established new compliance financial ratios. For a summary of the existing borrowed debt-to-EBITDA compliance ratios for 2003, see the table that follows. Additionally, our obligations under the revolving credit facility are guaranteed by some of our domestic subsidiaries.

Of the capital resource facilities available to PolyOne as of December 31, 2002, only the portion of the receivables sale facility that was actually sold provided security in connection with the transfer of ownership of these receivables. Each indenture governing our senior unsecured notes and debentures and our guarantee of the SunBelt note allows for a specific level of secured debt, above which security must be provided on each such indenture. The receivables sale facility does not constitute debt under the indentures governing PolyOne's senior unsecured notes and debentures. Security was granted under the terms of the amended and restated revolving credit agreement; however, as of December 31, 2002, PolyOne had no borrowings under the revolving credit agreement and had not triggered any security being provided to the outstanding public unsecured debt. On February 28, 2003, PolyOne made borrowings on the revolving credit agreement at levels that triggered the security on the public indentures. Security on the revolving credit agreement and public debt will terminate when the borrowed debt-to-EBITDA ratio is less than 3.50 to 1.0 for any two consecutive fiscal quarters. As of December 31, 2002, PolyOne had guaranteed unconsolidated equity affiliate debt of $91.4 million for SunBelt and $42.3 million for OxyVinyls. The OxyVinyls guarantee is expected to expire in the second quarter of 2003.

The following table summarizes the defined financial ratios for 2003 under the revolving credit facility.

	Interest Coverage Ratio (Minimum)	Borrowed Debt-to-EBITDA Ratio (Maximum)	Tangible Assets-to-Indebtedness Ratio (Minimum)
Agreement compliance*			
First quarter of 2003	1.90	6.00	1.00
Second quarter of 2003	1.90	6.00	1.00
Third quarter of 2003	4.00	4.00	1.00
Fourth quarter of 2003	4.00	3.50	1.00

*Limitations - Capital expenditures are restricted to $15.0 million in a quarter and $25.0 million for the six months ending June 30, 2003.

The realization of profitable operations will be important to (1) maintaining the existing levels of available capital resources, (2) any refinancing of a portion of the existing capital resources, (3) the payment of public debt maturing in September 2003 and (4) the execution of PolyOne's announced restructuring initiatives. The EBITDA before special items (which approximates the cash flow of current ongoing operations) totaled approximately $124 million in 2002. The value capture initiatives and the 2003 reduction in selling and administrative costs, net of 2003 estimated specific program cost increases, are projected to increase 2003 cash flow of operations between $57 million and $77 million. The cash flow of operations must cover expenditures for financing costs (interest expense and discount on sale of accounts receivable, which are projected to be approximately $50 million in 2003), spending associated with restructuring, capital expenditures and cash to fund sales growth through increased working capital requirements. Cash spending for the previously announced restructuring programs (North American Plastic Compounds and Colors manufacturing improvements, business unit initiatives and the recent cost-reduction program) are projected to be between $43 million and $50 million for 2003. Capital expenditures for 2003 are projected to be approximately $50 million. In December 2002, PolyOne announced that it will discontinue the payment of dividends, commencing in the first quarter of 2003. As of December 31, 2002, and utilizing the required financial ratios for the first quarter of 2003, approximately $125 million of the existing capital resource facilities would have been available to be drawn while remaining in compliance with the facilities.

PolyOne currently estimates minimum funding requirements for its qualified defined benefit pension plans of approximately $1 million in 2003 and $5 million in 2004. Market asset performance in 2003 will impact the final minimum funding requirements in 2005. As of December 31, 2002, PolyOne decreased by 25 basis points its assumption regarding the long-term rate of return on pension assets to 8.75%. An 8.75% return on assets in 2003, combined with the minimum contributions required in 2003 and 2004, would produce a projected minimum funding requirement by September 15, 2005 of approximately $45 million (each 1% return on asset variance in 2003 from 8.75% impacts the 2005 minimum funding by approximately $1 million). However, PolyOne intends to continue funding in excess of the minimum required for the qualified defined benefit pension plans during calendar 2003 and 2004, which would reduce any otherwise required funding by September 15, 2005.

Based on PolyOne's current projected operations, management believes that it should be able to continue to manage and control working capital, discretionary spending and capital expenditures to maintain compliance with the revolving credit facility's required financial ratios through June 30, 2003. Management believes that, prior to the end of the third quarter of 2003, it will either sell sufficient non-strategic business assets to maintain compliance under the revolving credit facility through the end of 2003 or it will arrange new financing that will amend or replace the existing revolving credit agreement. If it becomes necessary to secure additional capital resources, there can be no assurance that the additional capital resources would be available or, if available, that their terms would be acceptable to PolyOne. The anticipated actions should assure adequate levels of liquidity in 2003 to support normal operations, pay the public debt maturing in September 2003 and execute the announced restructuring initiatives that are projected to enhance PolyOne's future profitability.

Certain factors that may affect these forward-looking comments are discussed in "Forward-looking Statements" on page 45.

MARKET RISK DISCLOSURES

PolyOne is exposed to foreign currency exchange risk in the ordinary course of business because its products are provided in numerous countries around the world, and collection of revenues and payment of certain expenses may give rise to currency exposure. Management has reviewed PolyOne's exposure to this risk and has concluded that PolyOne's exposure in this area is adequately hedged with foreign currency exchange contracts, and that exposure to this risk is not material to fair values, cash flows or earnings. For additional information regarding foreign currency exchange risk, refer to Note V to the Consolidated Financial Statements.

- - CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except per share data; shares in thousands)	Common Shares	Common Shares Held in Treasury	Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Share Ownership Trust	Accumulated Other Non-Owner Equity Changes
Balance December 31, 1999	27,974	4,245	$334.7	$ 2.8	$ 297.3	$168.3	$(104.5)	$ --	$(29.2)
Non-owner equity changes:									
Net income			15.9			15.9			
Translation adjustment			(4.7)						(4.7)
Adjustment of minimum pension liability			(19.2)						(19.2)

Total non-owner equity changes			(8.0)						
Two-for-one stock split	27,979	3,654		2.8	(2.8)				
Reduction in par value from $0.10 per share to $0.01 per share				(5.1)	5.1				
Shares issued in business combination merger	66,234	18,406	536.7	0.7	781.3		(215.6)	(29.7)	
Formation of share ownership trust		(500)					13.4	(13.4)	
Stock-based compensation and benefits and exercise of options	5	(90)	(2.2)		(7.5)		3.5	1.8	
Purchase of shares for treasury		2,600	(18.7)				(18.7)		
Adjustment to market value					(15.8)			15.8	
Cash dividends ($0.25 per share)			(14.9)			(14.9)			
BALANCE DECEMBER 31, 2000	122,192	28,315	827.6	1.2	1,057.6	169.3	(321.9)	(25.5)	(53.1)
Non-owner equity changes:									
Net (loss)			(46.1)			(46.1)			
Translation adjustment			(10.0)						(10.0)
Adjustment of minimum pension liability			(38.9)						(38.9)
Net unrealized loss on securities			(0.5)						(0.5)

Total non-owner equity changes			(95.5)						
Stock-based compensation and benefits and exercise of options		2,860	4.2		(0.8)		(28.2)	36.1	(2.9)
Adjustment to market value					15.9			(15.9)	
Cash dividends ($0.25 per share)			(22.9)			(22.9)			
BALANCE DECEMBER 31, 2001	122,192	31,175	713.4	1.2	1,072.7	100.3	(350.1)	(5.3)	(105.4)
Non-owner equity changes:									
Net (loss)			(58.9)			(58.9)			
Translation adjustment			(2.8)						(2.8)
Adjustment of minimum pension liability			(60.5)						(60.5)
Reclassification of net unrealized loss on securities			0.5						0.5

Total non-owner equity changes			(121.7)						
Stock-based compensation and benefits and exercise of options		(658)	10.7		(4.5)		9.0	4.8	1.4
Adjustment to market value			--		1.3			(1.3)	
Cash dividends ($0.25 per share)			(22.7)			(22.7)			
Balance December 31, 2002	122,192	30,517	$579.7	$ 1.2	$1,069.5	$ 18.7	$(341.1)	$(1.8)	$(166.8)

See Notes to Consolidated Financial Statements.

Notes: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - DESCRIPTION OF BUSINESS

PolyOne Corporation (PolyOne or Company) is a leading global polymer services company, with operations in thermoplastic compounds, specialty polymer formulations, engineered films, color and additive systems, elastomer compounds and additives, and thermoplastic resin distribution. PolyOne was formed on August 31, 2000 as a result of the consolidation of The Geon Company (Geon) and M.A. Hanna Company (Hanna) (see Note F). The reported financial operating results and assets and liabilities prior to August 31, 2000 are those of only the former Geon business.

PolyOne's operations are located primarily in the United States, Europe, Canada, Mexico and Asia/Pacific in four business segments. The business segments consist of Performance Plastics, Elastomers and Performance Additives, Distribution, and Resin and Intermediates. See Note T for further information on PolyOne's business segments.

NOTE B - CHANGE IN ACCOUNTING METHOD

PolyOne adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002. Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized, but must be reviewed at least annually for impairment. PolyOne does not have any indefinite-lived intangible assets. Separable intangible assets that have finite useful lives will continue to be amortized over their useful lives. As part of adopting this standard, PolyOne completed a transitional review for goodwill impairment during the first quarter of 2002 for each of its reporting units. PolyOne determined that the carrying value of the Engineered Films reporting unit exceeded its estimated fair value as determined by utilizing various valuation techniques, including discounted cash flows. Given the indication of a potential impairment, we completed the assessment of the implied fair value of goodwill for the Engineered Films reporting unit. This assessment resulted in the writeoff of all of Engineered Films' goodwill, an impairment loss of $54.7 million ($53.7 million after tax). The Engineered Films reporting unit is included in the Performance Plastics segment. This transitional impairment loss was recognized as the cumulative effect of an accounting change. The fair value of all other reporting units at January 1, 2002, as determined by the valuation techniques noted above, exceeds their respective carrying value. The transitional impairment loss will not impact the future cash flows of our businesses. Prior to the adoption of SFAS No. 142, amortization expense was recorded for goodwill and other intangible assets. The following table sets forth a reconciliation of net income and earnings per share information for the years ended December 31, 2002, 2001 and 2000, adjusted for the non-amortization provisions of SFAS No. 142:

(In millions)	2002	2001	2000
Reported net income (loss)	$(58.9)	$(46.1)	$15.9
Discontinued operations	(1.4)	(1.0)	(0.7)
Cumulative effect of change in accounting, net of tax	53.7	--	--
Goodwill amortization, net of tax	--	12.3	4.8
Workforce amortization, net of tax	--	2.3	0.9
Adjusted income (loss) before discontinued operations and cumulative effect of a change in accounting	$ (6.6)	$(32.5)	$20.9
Basic and diluted income (loss) per share:			
As reported	$(0.65)	$(0.51)	$0.26
Discontinued operations	(0.01)	(0.01)	(0.01)
Cumulative effect of change in accounting, net of tax	0.59	--	--
Goodwill amortization, net of tax	--	0.14	0.08
Workforce amortization, net of tax	--	0.03	0.01
Adjusted income (loss) before discontinued operations and cumulative effect of a change in accounting	$(0.07)	$(0.35)	$0.34

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION AND BASIS OF PRESENTATION The Consolidated Financial Statements include the accounts of PolyOne and its subsidiaries. All majority-owned affiliates over which PolyOne has control are consolidated. Investments in affiliates and joint ventures in which our ownership is 50% or less, or in which PolyOne does not have control but has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Inter-company transactions are eliminated.

PolyOne's accounts receivable sale agreement as disclosed in Note K includes a wholly owned subsidiary, PolyOne Funding Corporation, that is a qualifying special-purpose entity (QSPE). The QSPE is bankruptcy remote and is not consolidated with PolyOne, but is accounted for on an equity basis. The

financial operations and position of PolyOne's unconsolidated affiliates, excluding PolyOne Funding Corporation, are disclosed in Note H. Transactions with related parties (including joint ventures) are in the ordinary course of business.

As described in Note D, PolyOne's 70% ownership interest in So.F.teR S.p.A. (Softer), an operating entity in Italy whose operations were included in the Performance Plastics business segment, was sold to the

minority interest holder. Consequently, the operating results and cash flows of Softer are reported separately as discontinued operations. Reference to PolyOne signifies our continuing operations, with the exception of the discussions regarding discontinued operations in Note D.

CASH AND CASH EQUIVALENTS PolyOne considers all highly liquid investments purchased with a maturity of less than three months to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

CONCENTRATIONS OF CREDIT RISK Financial instruments that potentially subject PolyOne to credit risk are trade accounts receivable, foreign exchange contracts and interest rate swap agreements. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers constituting our customer base and their distribution among many industries and geographic locations. PolyOne is exposed to credit risk with respect to forward foreign exchange contracts in the event of non-performance by the counter-parties to these financial instruments. Management believes the risk of incurring material losses related to this credit risk is remote.

INVENTORIES Inventories are stated at the lower of cost or market. Approximately 42% of our inventories at December 31, 2002 are valued by the last-in, first-out (LIFO) cost method. Inventories not valued by the LIFO method are valued principally by the first-in, first-out (FIFO) or average cost method.

PROPERTY AND DEPRECIATION Property, plant and equipment are recorded at cost, net of depreciation and amortization computed principally using the straight-line method over the estimated useful life of the assets, which ranges from three to 15 years for machinery and equipment and up to 40 years for buildings. Computer software is amortized over periods not exceeding 10 years. Property, plant and equipment are generally depreciated on accelerated methods for income tax purposes. Repair and maintenance costs are expensed as incurred.

Depreciation expense was $67.6 million in 2002, $65.4 million in 2001 and $45.1 million in 2000.

IMPAIRMENT OF LONG-LIVED ASSETS Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets are less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and the fair value. Fair values are determined based on quoted market values, discounted cash flows, or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

GOODWILL AND OTHER INTANGIBLE ASSETS Goodwill is the excess of the purchase price paid over the fair value of the net assets of the business acquired. As discussed in Note B and Note E, PolyOne adopted SFAS No. 142 effective January 1, 2002. Goodwill is no longer amortized but is subject to impairment testing. Prior to 2002, goodwill was amortized using the straight-line method over a life of 35 years. Other intangible assets, which consist primarily of non-contractual customer relationships, sales contracts, patents and technology, continue to be amortized over their estimated useful lives. The remaining lives range from three to 20 years.

Total amortization expense of goodwill and other intangibles was $4.9 million in 2002, $23.8 million in 2001 and $11.4 million in 2000. No goodwill amortization was recorded in 2002.

DERIVATIVE FINANCIAL INSTRUMENTS Effective January 1, 2001, PolyOne adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that all derivative financial instruments, such as foreign exchange contracts and interest rate swap agreements, be recognized in the financial statements and measured at fair value, regardless of the purpose or intent in holding them. Changes in the fair value of derivative financial instruments are recognized periodically in either income or shareholders' equity (as a component of accumulated other non-owner equity), depending on whether the derivative is being used to hedge changes in fair value or cash flows. The adoption of SFAS No. 133 did not have a material effect on our earnings, financial position or cash flows in fiscal 2001.

In the normal course of business, PolyOne is exposed to changes in foreign currencies and fluctuations of interest rates. PolyOne has established policies and procedures that govern the management of these exposures through the use of financial instruments. By policy, PolyOne does not enter into such instruments for trading purposes or speculation.

PolyOne enters into foreign currency exchange forward contracts with certain major financial institutions to reduce the effect of fluctuating exchange rates, primarily on foreign currency receivables, payables and inter-company lending transactions. Such contracts are not treated as hedges and, accordingly, are marked to market, with the resulting gains and losses recognized as other income or expense in the Consolidated Statements of Operations. Realized gains and losses on these contracts offset the foreign exchange gains and losses on the underlying transactions. PolyOne's forward contracts have original maturities ranging from one to three months.

From time to time, PolyOne also enters into interest rate swap agreements. The interest rate swap agreements effectively modify our exposure to interest risk by converting our fixed-rate debt to a floating rate. The interest rate swap and instrument being hedged are marked to market in the balance sheet. The

net effect of this accounting on PolyOne's operating results is that interest
expense on the portion of

fixed-rate debt being hedged is recorded based on the variable rate stated within the swap agreement. No other cash payments are made unless the contract is terminated prior to maturity. In this case, the amount paid or received in settlement is established by agreement at the time of termination and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract. Any gains or losses upon the early termination of the interest rate swap contracts are deferred within the hedged item and recognized over the remaining life of the contract. During 2002 and 2001, PolyOne terminated interest rate swap contracts and received cash of $8.3 million in 2002 and $4.3 million in 2001. The deferred gain has been classified as long-term debt and is being amortized over the remaining life of the related debt instrument. See Note V for a further description of our financial instruments.

REVENUE RECOGNITION PolyOne recognizes revenues at the point of passage of title, which is based on shipping terms for product sales or when service is performed.

SHIPPING AND HANDLING COSTS Shipping and handling costs are reflected in cost of sales.

EQUITY AFFILIATES PolyOne recognizes its proportionate share of the income of equity affiliates. Losses of equity affiliates are recognized to the extent of our investment, advances, financial guarantees and other commitments to provide financial support to the investee. Any losses in excess of this amount are deferred, and reduce the amount of future earnings of the equity investee recognized by PolyOne. At December 31, 2002 and 2001, there were no deferred losses related to equity investees.

PolyOne accounts for investments in equity affiliates under Accounting Principles Board (APB) Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," and recognizes impairment losses in the value of investments that experience declines judged to be other than temporary. See Note H for further information on our equity affiliates.

ENVIRONMENTAL COSTS PolyOne expenses, on a current basis, recurring costs associated with managing hazardous substances and pollution in ongoing operations. Costs associated with the remediation of environmental contamination are accrued when it becomes probable that a liability has been incurred and our proportionate share of the amount can be reasonably estimated.

RESEARCH AND DEVELOPMENT EXPENSE Research and development costs, which were $19.4 million in 2002, $18.8 million in 2001 and $21.4 million in 2000, are charged to expense as incurred.

INCOME TAXES Deferred tax liabilities and assets are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rate and laws that are currently in effect.

FOREIGN CURRENCY TRANSLATION Revenues and expenses are translated at average currency exchange rates effective during the period. Assets and liabilities of foreign subsidiaries and equity investees are translated using the exchange rate at the end of the period. PolyOne's share of the resulting translation adjustment is recorded as accumulated other non-owner equity changes. The cumulative unrecognized translation adjustment loss was $45.3 million at December 31, 2002, $42.5 million at December 31, 2001 and $32.5 million at December 31, 2000. Gains and losses resulting from foreign currency transactions, including inter-company transactions that are not considered permanently invested, are included in net income.

MARKETABLE SECURITIES Marketable securities are classified as available for sale and recorded at current market value. Net unrealized gains and losses on marketable securities available for sale are credited or charged as accumulated other non-owner equity changes. At December 31, 2002, PolyOne recognized an other-than-temporary impairment loss of $0.8 million on its marketable securities, effectively writing the investment down to the December 31, 2002 market value. There were no cumulative unrealized gains or losses at December 31, 2002.

STOCK-BASED COMPENSATION As provided under SFAS No. 123, "Accounting for Stock-Based Compensation," PolyOne has elected to account for stock-based compensation under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation cost for stock options is measured as the excess, if any, of the quoted market price of the PolyOne stock at the date of the grant over the amount an employee must pay to acquire the stock.

The following pro forma information regarding net (loss) income and net (loss) income per share is required by SFAS No.123, and has been determined as if PolyOne had accounted for its share options under the fair value method of that statement. The weighted-average fair value per share of stock options granted was $6.52 for 2002, $3.28 for 2001 and $3.90 for 2000. The fair value for these options was estimated at the grant date using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	2002	2001	2000
Risk-free interest rate	5.2%	4.8%	5.2%
Expected dividend yield	0.0%	2.5%	2.0%
Expected lives	7 years	7 years	7 years
Expected volatility	43.3%	41.2%	36.7%

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly

subjective assumptions, including the expected share price volatility. Because PolyOne's share options have characteristics significantly different from traded options, and because

changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our share options.

The following table illustrates the effect on net (loss) income and (loss) income per share if PolyOne had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation, using the fair value estimate computed by the Black-Scholes option-pricing model.

(In millions, except per share data)	For the years ended December 31, 2002	2001	2000
Net (loss) income, as reported	$(58.9)	$(46.1)	$15.9
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	4.6	4.1	4.0
Pro forma net (loss) income	$(63.5)	$(50.2)	$11.9
Net (loss) income per share:			
Basic and diluted - as reported	$(0.65)	$(0.51)	$0.26
Basic and diluted - pro forma	$(0.70)	$(0.56)	$0.19

NEW ACCOUNTING PRONOUNCEMENTS The Financial Accounting Standards Board has issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The amount recorded as a liability will be capitalized by increasing the carrying amount of the related long-lived asset, which is then depreciated over its useful life. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. PolyOne does not believe the adoption of SFAS No. 143 will have a material impact on its results of operations, financial position or liquidity.

The Financial Accounting Standards Board has issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires a cost associated with an exit or disposal activity, such as the sale or termination of a line of business, the closing of business activities in a particular location or a change in management structure, to be recorded as a liability at fair value when it becomes probable the cost will be incurred and no future economic benefit will be gained by the Company for such cost. Applicable costs include employee termination benefits, contract termination costs and costs to consolidate facilities or relocate employees. SFAS No. 146 supersedes EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," which in some cases required certain costs to be recognized before a liability was actually incurred. The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002.

The Financial Accounting Standards Board has issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires disclosures by guarantors about the nature of, and maximum potential payments under, contracts that contingently require the guarantor to make payments to the guaranteed party under certain circumstances (such as financial guarantees and product warranties). FIN 45 also requires the recognition by guarantors of a liability, at fair value, for the obligation to stand ready to perform under the terms of the contract. The recognition provisions of FIN 45 do not apply to product warranties. The disclosure provisions of FIN 45 are effective for periods ending after December 15, 2002. The recognition provisions are effective on a prospective basis to guarantees issued or modified after December 31, 2002. PolyOne does not expect the adoption of FIN 45 to have a material impact on its results of operations, financial position or liquidity. See Note P for further information.

The Financial Accounting Standards Board has issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition when a company voluntarily changes to the fair value-based method of recognizing expense in the income statement for stock-based employee compensation, including stock options granted to employees. As allowed by SFAS No. 123, PolyOne has adopted the disclosure-only provisions of the standard and does not recognize expense for stock options granted to employees.

USE OF ESTIMATES The preparation of Consolidated Financial Statements in conformity with generally accepted accounting principles (GAAP) requires management to make extensive use of certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, as well as the reported amounts of revenues and expenses during the reported periods. Significant estimates in these Consolidated Financial Statements include restructuring and other non-recurring (credits) charges, purchase accounting reserves, allowances for doubtful accounts receivable, estimates of future cash flows associated with assets, asset impairments, useful lives for depreciation and amortization, loss contingencies, net realizable value of inventories, environmental liabilities, income taxes and tax valuation reserves, and the determination of discount and other rate assumptions for pension and post-retirement employee benefit expenses. Actual results could differ from these estimates.

RECLASSIFICATION Certain amounts for 2001 and 2000 have been reclassified to conform with the 2002 presentation.

NOTE D - BUSINESS ACQUISITIONS AND DIVESTMENTS

In December 2002, PolyOne acquired all shares of Transformacion de Pigmentos y Colorantes, S.A. (Transcolor) and divested its 70% ownership interest in Softer.

On December 19, 2002, PolyOne acquired Transcolor, a color concentrates manufacturer with annual sales of approximately $36 million. Transcolor is located in northern Spain. Due to the timing of the acquisition, Transcolor's contribution to operating results was minimal. The 2002 year-end purchase balance sheet was consolidated and contained a preliminary allocation to goodwill of approximately $12.5 million.

On December 4, 2002, PolyOne announced the sale of its 70% ownership interest in Softer, a leading Italian compounder of thermoplastic materials, while licensing certain technologies. With the sale, all historical operating results of this business have been reported separately as discontinued operations. The business was previously included within PolyOne's Performance Plastics segment.

A summary of the Softer historical operating results constituting the discontinued operations in the Consolidated Statements of Operations follows.

(In millions)	11 Months Ended November 30, 2002	Year Ended 2001	Four Months Ended December 31, 2000
Net sales	$70.0	$73.5	$26.4
Income from operations before income tax expense	2.9	2.5	1.5
Income tax expense	1.4	1.5	0.8
Income from discontinued operations	1.5	1.0	0.7
Loss on disposal	(0.1)	--	--
Income from operations and loss on sale, net of income taxes	$ 1.4	$ 1.0	$ 0.7

As of December 31, 2001, the Softer amounts included in the Consolidated Balance Sheet were as follows:

(In millions)	
Net current assets:	
Accounts receivables, net	$ 25.4
Inventories	10.1
Other current assets	3.2
Short-term notes payable	(8.1)
Trade payables	(16.6)
Other current liabilities	(11.7)
	$ 2.3
Net non-current assets:	
Property, net	$ 17.2
Goodwill, net	9.2
Other intangible assets, net	0.2
Long-term debt	(6.8)
Other non-current liabilities	(6.1)
	$ 13.7

NOTE E - GOOD WILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the year ended December 31, 2002 and by business segment are as follows:

(In millions)	Performance Plastics	Elastomers and Performance Additives	Distribution	Other	Total
January 1, 2002	$370.1	$106.2	$ --	$ --	$476.3
Reclassification of workforce, net of deferred taxes	9.7	5.7	1.1	1.3	17.8
Business acquisition	12.5	--	--	--	12.5
Business divestiture	(6.3)	--	--	--	(6.3)
Other	(1.6)	--	--	--	(1.6)
Impairment	(54.7)	--	--	--	(54.7)
December 31, 2002	$329.7	$111.9	$1.1	$1.3	$444.0

Information regarding PolyOne's other intangible assets follows:

(In millions)	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
	As of December 31, 2002			
Non-contractual customer relationships	$16.7	$ (3.0)	$ --	$ 13.7
Sales contract	12.9	(4.1)	--	8.8
Patents, technology and other	15.5	(5.6)	0.4	10.3
Total	$45.1	$(12.7)	$ 0.4	$ 32.8

(In millions)	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
	As of December 31, 2001			
Non-contractual customer relationships	$16.4	$ (2.0)	$ --	$14.4
Sales contract	12.9	(2.3)	--	10.6
Patents, technology and other	14.4	(3.6)	--	10.8
Assembled workforce	30.7	(5.5)	--	25.2
Total	$74.4	$(13.4)	$ --	$61.0

Amortization of other intangible assets was $4.8 million for the year ended December 31, 2002. Excluding amortization of the assembled workforce intangible in 2001, amortization of other intangible assets was $5.8 million for the year ended December 31, 2001. Amortization expense for each of the five succeeding fiscal years is expected to be approximately $5 million per year.

NOTE F - FORMATION OF POLYONE

On August 31, 2000, PolyOne was formed as a result of the consolidation of Geon and Hanna, with Geon as the acquiring entity. As a result of the acquisition of Hanna, PolyOne announced plans to incur employee separation and plant phaseout costs for incremental expenditures to exit and consolidate activities at former Hanna locations, to sever employees involuntarily, and to integrate operating locations and other activities of the newly formed PolyOne.

In 2001, PolyOne announced the closing of 12 former Hanna manufacturing plants. Of the announced sites for closing, nine were in the Performance Plastics business segment and three were in the Elastomers and Performance Additives segment. In 2001, one Performance Plastics and all designated Elastomers and Performance Additives plants were closed. In 2002, five Performance Plastics manufacturing sites closed. As of December 31, 2002, one plant was to close at the end of the first quarter of 2003 and another plant was scheduled to close early in the third quarter of 2003. In January 2003, PolyOne committed to a refinement to the original 2001 plan and decided to continue operating the remaining facility. Accordingly, in the first quarter of 2003, the reserve of approximately $1 million associated with this facility (which relates to an acquired business) will be reversed and recognized as a reduction to goodwill of the acquired business. As of December 31, 2002, the net property carrying value to be realized for the plants closed or to be closed was $9.4 million (some assets will be transferred to other locations as production ceases). In addition, PolyOne projects that cash spending for this restructuring initiative will approximate $5.5 million during 2003.

The components of the acquisition integration liabilities are as follows:

(In millions, except employee numbers)	Employee Separation		Plant Phaseout Costs		
	Number of Employees	Costs	Cash Closing	Asset Writedowns	Total
Balance at December 31, 2000	108	$ 10.7	$ --	$ --	$ 10.7
2001 plan	671	17.3	7.6	17.9	42.8
Utilized in 2001	(375)	(16.2)	(1.0)	(17.5)	(34.7)
Balance at December 31, 2001	404	$ 11.8	$ 6.6	$ 0.4	$ 18.8
Utilized in 2002	(245)	(6.8)	(5.1)	(0.1)	(12.0)
Balance at December 31, 2002	159	$ 5.0	$ 1.5	$ 0.3	$ 6.8

NOTE G - EMPLOYEE SEPARATION AND PLANT PHASEOUT

PolyOne has undertaken various restructuring initiatives and incurred various employee separation and plant phaseout costs. These costs include severance, employee outplacement, external consulting, lease termination, facility closing and the writedown of the carrying value of plants and equipment. These employee separation and plant phaseout costs have been accrued and recognized as expense in the Consolidated Statements of Operations.

2002 CHARGES Operating income in 2002 was reduced by charges of $1.1 million ($0.6 million after tax) for costs associated with the consolidation of certain activities related to the Formulator operations in the Performance Plastics segment. The costs were for employee separation, which consisted of severance and other employee benefits. All 43 employees were terminated in 2002.

2001 CHARGES Operating income in 2001 for the Performance Plastics segment was reduced by charges of $36.1 million ($22.0 million after tax) for costs associated with integration efforts and programs to update North American manufacturing. The costs included $21.0 million for employee separation, $2.1 million for cash plant closing and $13.0 million for the writedown of the carrying value of plant and equipment. The employee separation consisted of severance and other related employee benefits, and included the projected termination of approximately 400 employees. Approximately 40 employees remain to be terminated in 2003 in association with the vinyl manufacturing restructuring announced in November 2001.

2000 CHARGES Operating income in 2000 was reduced by charges of $3.4 million ($2.1 million after tax) for costs associated with the closing of an Engineered Films facility. This facility closed in February 2001, with the elimination of all positions at the plant during the first six months of 2001. During 2001, PolyOne reassessed the value of the facility that was closed and recorded an impairment charge of $3.8 million.

In 2001, PolyOne announced the closing of five former Geon manufacturing plants within the Performance Plastics segment. Two plants were closed in 2001 and two additional plants were closed in 2002. As of December 31, 2002, one plant remained open and was projected to close in the second quarter of 2003.

As of December 31, 2002, the net property carrying value to be realized for the plants closed or to be closed was $7.3 million (some assets will be transferred to other locations as production ceases). In addition, PolyOne projects that cash spending for restructuring initiatives accrued as of December 31, 2002 in relation to employee separation and plant phaseout costs will approximate $14.6 million during 2003.

The following table summarizes the provisions, payments and remaining reserves associated with these initiatives:

	Employee Separation		Plant Phaseout Costs		
(In millions, except employee numbers)	Number of Employees	Costs	Cash Closing	Asset Writedowns	Total
Balance at December 31, 2000	78	$ 2.4	$ --	$ --	$ 2.4
2001 charges	400	21.0	2.1	13.0	36.1
Utilized in 2001	(178)	(6.4)	(0.2)	(13.0)	(19.6)
Balance at December 31, 2001	300	17.0	1.9	--	18.9
2002 charges	43	1.1	--	--	1.1
Utilized in 2002	(303)	(4.6)	(0.8)	--	(5.4)
Balance at December 31, 2002	40	$13.5	$ 1.1	$ --	$ 14.6

The employee separation costs remaining to be paid at December 31, 2002 consisted of severance costs for employees related to plants closed in December 2002 and paid in January 2003 (approximately $2.8 million), separation costs for the 40 employees still to be terminated, continuing severance costs of previously terminated employees and continuing health care and other benefits due to terminated employees.

Notes: TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE H - FINANCIAL INFORMATION OF EQUITY AFFILIATES

PolyOne's Resin and Intermediates (R&I) segment consists primarily of investments in equity affiliates. We own 24% of Oxy Vinyls, LP (OxyVinyls), a manufacturer and marketer of polyvinyl chloride (PVC) resins. OxyVinyls is a leading producer of PVC resins in North America. Summarized financial information for OxyVinyls follows:

(In millions)	2002	2001
OxyVinyls:		
Net sales	$1,377.1	$1,546.3
Employee severance, liabilities associated with the temporary idling of a plant, facility asset writeoff and decommissioning costs	(20.6)	(18.2)
Operating income (loss)	91.9	(14.7)
Partnership income (loss) as reported by OxyVinyls	88.4	(13.9)
PolyOne's ownership of OxyVinyls	24%	24%
PolyOne's proportionate share of OxyVinyls' earnings (loss)	21.2	(3.3)
Amortization of the difference between PolyOne's investment and its underlying share of OxyVinyls' equity	0.6	0.6
Earnings (loss) of equity affiliate recorded by PolyOne	$ 21.8	$ (2.7)
Current assets	$ 275.1	$ 287.2
Non-current assets	979.1	1,006.1
Total assets	1,254.2	1,293.3
Current liabilities	164.0	178.7
Non-current liabilities	81.3	81.6
Total liabilities	245.3	260.3
Partnership capital	$1,008.9	$1,033.0

OxyVinyls' income during the year ended December 31, 2002 includes special pre-tax charges of $20.6 million. The 2002 special charges relate to the asset writeoff and decommissioning cost associated with the permanent closing of specific production assets included in an idled plant, plus employee severance and costs associated with the temporary idling of a plant. Our proportionate share of the 2002 special items was $4.9 million. OxyVinyls' special charges for the year ended December 31, 2001 included a fourth-quarter pre-tax charge of $13.8 million for employee severance and liabilities associated with the temporary idling of a plant, and a first-quarter pre-tax charge of $4.4 million, all of which related to involuntary severance, outplacement costs and other employee-related separation benefits. PolyOne's proportionate share of the 2001 special items was $4.3 million.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 requires a company to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity, even if the company does not have a majority of voting interests. A variable interest entity is generally defined as an entity of which its equity is unable to finance its activities, or the owners of the entity lack the risk and rewards of ownership. The provisions of this interpretation apply at inception for any entity created after January 31, 2003. For an entity created before February 1, 2003, the provisions of this interpretation must be applied at the beginning of the first interim or annual period beginning after June 15, 2003. OxyVinyls will adopt the provisions of FIN 46 in the third quarter of 2003 for existing entities that are within the scope of this interpretation. On a preliminary basis, OxyVinyls believes that FIN 46 will result in the consolidation of certain variable interest entities that are owners of plants and equipment OxyVinyls leases from them. The probable consolidation will affect the LaPorte, Texas, vinyl chloride monomer (VCM) plant lease and railcars under the terms of a related lease agreement dated April 30, 1999 (collectively, the "LaPorte Lease"). If consolidation of the LaPorte Lease were to take place, OxyVinyls' financial condition would result in an increase in assets of approximately $132 million and in liabilities of $180 million, with a pre-tax charge of approximately $48 million in the third quarter of 2003. OxyVinyls expects to record this change as a cumulative effect of a change in accounting principles. Annual expense for depreciation would increase by approximately $12 million. If OxyVinyls chose to terminate the leases prior to adoption, there would be no cumulative effect of a change in accounting principles. Additionally, FIN 46 may require the consolidation of OxyMar in the third quarter of 2003. If OxyMar were to be consolidated at December 31, 2002, both assets and liabilities would increase by approximately $354 million. The consolidation of OxyMar would not change OxyVinyls' results of operations. The potential 2003 impact on PolyOne's financial statements should the LaPorte Lease not be terminated is (1) a third-quarter pre-tax charge from the cumulative effect of a change in accounting of approximately $11.5 million and (2) lower second-half equity earnings of approximately $1.4 million.

PolyOne's R&I segment also includes the SunBelt Chlor-Alkali (owned 50%) and Welvic Australia Pty Ltd. (owned 37.4%) equity affiliates. The Performance Plastics segment includes the DH Compounding Company (owned 50%), Geon/Polimeros Andinos (owned 50%) and Techmer, PM, LLC (owned 51%) equity affiliates. Further, for the year ended December 31, 2001 and the two-month period ended February 28,

2002, the R&I segment included the results of Australian Vinyls Corporation, an equity affiliate (owned 37.4%) and the Performance Plastics segment included SPC Geon PTE Limited (owned 50%). In

February 2002, SPC Geon PTE Limited was dissolved. The sale of Australian Vinyls Corporation's PVC resin operations was announced on January 11, 2002; the sale closed in February 2002. In December 2001, PolyOne recognized an investment impairment charge of $9.5 million, including a $4.9 million translation loss, in connection with the pending sale. The retained Australian compound operations are named Welvic Australia Pty Ltd.

On December 20, 2002, we announced that we had entered into an agreement with TPM Holdings, LP, a limited partnership, for the future sale of PolyOne's unconsolidated equity ownership interest in Techmer. Under terms of the agreement, PolyOne recognized in its 2002 earnings from equity affiliates a pre-tax impairment loss on its investment of $3.6 million, reported separately as a component of operating income in the line "Loss on divestiture of equity investment." The sale transaction closed in January 2003, with PolyOne receiving cash in exchange for its shares of Techmer.

Combined summarized financial information for these equity affiliates, excluding PolyOne Funding Corporation, follows. The amounts shown represent the entire operations of these businesses, rather than PolyOne's proportionate share.

(In millions)	2002	2001
Net sales	$253.1	$359.0
Operating income (loss)	15.9	(17.9)
Net income (loss)	$ 1.5	$(34.1)
Current assets	$ 76.4	$ 96.4
Non-current assets	201.1	220.5
Total assets	$277.5	$316.9
Current liabilities	$ 41.0	$ 55.3
Non-current liabilities	180.8	196.6
Total liabilities	$221.8	$251.9

OxyVinyls purchases chlorine from SunBelt under an agreement that expires in 2094. The agreement requires OxyVinyls to purchase at market price, less a discount, all chlorine produced by SunBelt up to a maximum of 250,000 tons per year. OxyVinyls' chlorine purchases from SunBelt totaled $30.5 million in 2002 and $9.8 million in 2001.

NOTE I - FINANCING ARRANGEMENTS

Long-term debt, including capital lease obligations, at December 31 consisted of the following:

(In millions)	2002	2001
9.375% senior notes due 2003	$ 90.0	$ 91.5
6.875% debentures due 2005	78.7	75.2
7.500% debentures due 2015	50.0	50.0
8.875% senior notes due 2012	198.3	--
Medium-term notes - interest rates from 6.52% to 7.16% with a weighted-average rate of 6.85% - due between 2004 and 2011	155.6	151.1
Deutsche mark denominated note, interest rate at 5.1%	--	40.5
Colombian peso denominated notes, interest rates at 11.10% to 11.85%, due 2004-2005	8.9	11.4
Italian lira denominated notes, interest rates at 2% to 5.1%	--	6.5
Bank borrowings	1.7	5.2
	583.2	431.4
Less current portion	91.0	4.6
	$492.2	$426.8

Aggregate maturities of long-term debt for the next five years are: 2003 - $91.0 million; 2004 - $23.8 million; 2005 - $104.9 million; 2006 - $20.1 million; 2007 - $20.0 million; and thereafter - $323.4 million.

During April 2002, PolyOne completed a private placement of $200 million of 8.875% senior notes to certain institutional investors in an offering exempt from the registration requirements of the Securities Act of 1933. Subsequently, PolyOne registered with the Securities and Exchange Commission an offer to exchange the senior notes for registered senior notes, which became effective in July 2002. In part, we used the proceeds from the offering to repay a loan held by one of our German subsidiaries. The senior notes rank equally with all of PolyOne's other senior unsecured indebtedness.

In December 2002, PolyOne amended its revolving credit facility, which expires in October 2004. The amendment reduced the existing facility from $150 million to $125 million and established new future compliance financial ratios. The amendment waived the compliance of financial ratio covenants for the fourth quarter of 2002. The amended agreement provides for interest rates to be determined at the time of borrowing based on a choice of formulas specified in the agreement. Additionally, our obligations under the revolving credit facility are guaranteed by some of our domestic subsidiaries. There were no borrowings

under this agreement at December 31, 2002.

The weighted-average interest on short-term borrowings was 4.4% at December 31, 2002 and 4.0% at December 31, 2001. Interest paid amounted to $41.4 million in 2002, $42.5 million in 2001 and $38.6 million in 2000. PolyOne capitalized $0.7 million of interest costs during 2002 in connection with the implementation of a common management business information systems platform.

From time to time, PolyOne enters into interest rate swap agreements. The interest rate swap agreements effectively modify PolyOne's exposure to interest risk by converting our fixed-rate debt to a floating rate. PolyOne terminated interest rate swap contracts and received cash of $8.3 million in 2002 and $4.3 million in 2001. The deferred gain has been classified as long-term debt, and is being amortized over the remaining life of the related debt instrument. As a result of the swap agreements in 2002 and 2001, the 9.375% interest rate on the senior notes due in 2003 was converted to a rate of 6.70% at December 31, 2002 and 7.96% at December 31, 2001. The 6.875% interest rate on the debentures due in 2005 was converted to 5.33% at December 31, 2002 and 4.5675% at December 31, 2001. At December 31, 2002, $100.0 million of medium-term notes with a weighted-average interest rate of 6.96% was converted to an average weighted interest rate of 5.77%. At December 31, 2001, $20.0 million of medium-term notes with an interest rate of 6.875% was converted to an interest rate of 5.0825%.

PolyOne's bank agreements require, among other things, that PolyOne comply with interest coverage, borrowed debt-to-EBITDA earnings and tangible assets-to-indebtedness ratios. Further, the amended revolving credit agreement limits capital expenditures, acquisitions and dividends.

Each indenture governing our public debt and our guarantee of the SunBelt note allows for a specific level of secured debt, above which security must be provided on each such indenture. The receivables sale facility does not constitute debt under the public debt indentures. In March 2002, security was granted under the terms of the amended and restated revolving credit agreement; however, as of December 31, 2002, PolyOne had no borrowings under the revolving credit agreement and had not triggered any security being provided to the outstanding public unsecured debt. In February 2003, PolyOne made borrowings on the revolving credit agreement at levels that triggered the security on the public indentures. Security on the revolving credit agreement and public debt will terminate when the borrowed debt-to-EBITDA ratio is less than 3.50 to 1.0 for any two consecutive fiscal quarters.

NOTE J - LEASING ARRANGEMENTS

PolyOne leases certain manufacturing facilities, warehouse space, machinery and equipment, automobiles and railcars under operating leases. Rent expense amounted to $20.9 million in 2002, $25.7 million in 2001 and $21.3 million in 2000.

The future minimum lease payments under non-cancelable operating leases with initial lease terms in excess of one year at December 31, 2002 were as follows: 2003 - $16.6 million; 2004 - $12.2 million; 2005 - $6.3 million; 2006 - $4.5 million; 2007 - $2.8 million; and thereafter - $7.7 million.

NOTE K - SALE OF ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

(In millions)	2002	2001
Trade accounts receivable	$120.1	$145.1
Retained interest in securitized accounts receivable	56.5	--
Allowance for doubtful accounts	(12.3)	(9.5)
	$164.3	$135.6

PolyOne participates in a receivables sale program to provide up to $250 million in liquidity through the sale of certain domestic trade accounts receivable at a cost similar to high-grade commercial paper. This program was amended and restated in April 2002. In the future, the program could be terminated should PolyOne's senior unsecured debt receive a public debt rating below BB- by Standard & Poor's or a rating below Ba3 by Moody's Investors Service.

Under the terms of the amended and restated agreement, PolyOne sells undivided interests in certain domestic accounts receivable through PolyOne Funding Corporation (PFC), without recourse, to a third-party financial conduit. PFC is a wholly owned subsidiary and a qualifying special-purpose entity (QSPE) that is bankruptcy remote and accounted for on an equity basis. At December 31, 2002, accounts receivable totaling $216.4 million were sold by PolyOne to PFC, and are included as a reduction of trade accounts receivable within accounts receivable on the PolyOne Consolidated Balance Sheet. Further, at December 31, 2002, PFC had sold undivided interests in accounts receivable totaling $159.9 million to a third-party financial conduit, a decrease of $57.6 million from December 31, 2001. PolyOne retains an interest in the $56.5 million difference between the amount of trade receivables sold by PolyOne to PFC and the undivided interests sold by PFC to the third-party financial conduit. This interest retained by PolyOne is included in accounts receivable in the PolyOne Consolidated Balance Sheet at December 31, 2002. The third-party financial conduit has a security interest in the unsold accounts receivable held by PFC. PolyOne records the net change in the undivided interests sold under this program as operating cash flows in the Consolidated Statements of Cash Flows.

The accounts receivable are sold at a discount from the face amount to pay investor yield (30-day LIBOR based) on the undivided interests sold to the conduit, for utilization fees (0.25% of the undivided interests sold) and for program fees (0.50% of the total commitment). The discount from the face amount for accounts receivable sold, net of a servicing fee, is $3.9 million for the year ended December 31, 2002, and is included in other expense, net, in the Consolidated Statements of Operations.

The arrangement provides that PolyOne remain responsible for servicing the underlying accounts receivable. We receive an annualized service fee from PFC approximating 1/4 of 1% of the undivided interests sold. As PolyOne collects payments from the undivided interests sold, PFC reinvests the collected payments in new accounts receivable for the conduit. PolyOne, through PFC, retains the risk of credit loss on the receivables and, accordingly, the full amount of the allowance for doubtful accounts has been retained in the PolyOne Condensed Consolidated Balance Sheet. The conduit has collection rights to recover payments from the receivables in the designated pool.

NOTE L - INVENTORIES

(In millions)	December 31, 2002	December 31, 2001
At FIFO or average cost, which approximates current costs:		
Finished products and in process	$159.1	$154.8
Raw materials and supplies	118.5	117.0
	277.6	271.8
Reserve to reduce certain inventories to LIFO cost basis	(23.9)	(16.5)
	$253.7	$255.3

Approximately 42% of PolyOne's inventory had been valued by the LIFO method at December 31, 2002 and 44% at December 31, 2001.

NOTE M - PROPERTY

(In millions)	2002	2001
Land and land improvements	$ 59.6	$ 62.0
Buildings	292.3	287.2
Machinery and equipment	941.1	864.3
	1,293.0	1,213.5
Less accumulated depreciation and amortization	(610.9)	(529.9)
	$ 682.1	$ 683.6

NOTE N - OTHER BALANCE SHEET LIABILITIES

	Accrued Expenses		Non-current Liabilities	
(In millions)	December 31, 2002	2001	December 31, 2002	2001
Employment costs	$ 63.0	$ 68.5	$ 25.6	$ 21.1
Environmental	7.7	4.1	44.6	52.1
Taxes	12.6	11.7	--	--
Post-retirement benefits	12.3	12.5	--	--
Interest payable	6.6	4.2	--	--
Pension	--	--	163.5	95.6
Employee separation and plant phaseout	21.3	36.5	0.1	1.2
Insurance accruals	0.8	0.6	5.3	4.7
Other	35.9	22.9	22.1	39.8
	$160.2	$161.0	$261.2	$214.5

NOTE O - EMPLOYEE BENEFIT PLANS

PolyOne has four defined benefit pension plans under which benefits are accruing for certain U.S. employees. Two of the pension plans are unfunded non-qualified pension plans that provide supplemental pension benefits for senior executives. The plans generally provide benefit payments using a formula based on employee compensation and length of service. Annual contributions to the plans are sufficient to satisfy legal requirements. Plan assets consist principally of corporate and government obligations and funds invested in equities, including PolyOne stock. PolyOne's salaried plan closed participation to employees after December 31, 1999, and for all active participants the service component of the benefit was frozen as of December 31, 2002. In connection with the acquisitions of Hanna and O'Sullivan Corporation (O'Sullivan), PolyOne assumed the obligations and assets of Hanna's and O'Sullivan's defined benefit pension plans, covering certain Hanna and O'Sullivan employees. Benefits earned under Hanna's and O'Sullivan's defined benefit pension plans have been frozen.

PolyOne recorded an intangible asset of $4.3 million related to both funded and unfunded pension plans as of December 31, 2002, and of $1.4 million as of December 31, 2001. PolyOne's accumulated other non-owner equity changes included $120.0 million after tax at December 31, 2002 and $59.5 million at December 31, 2001 related to the accumulated minimum pension liability. PolyOne reports other non-owner equity changes, net of the related income tax expense or benefit, in the Consolidated Statements of Shareholders' Equity. The income tax benefit related to the adjustment of the minimum pension liability was $2.9 million in 2002, $20.8 million in 2001 and $15.2 million in 2000.

PolyOne sponsors several unfunded defined benefit post-retirement plans that provide certain health care and life insurance benefits to eligible employees. The health care plans are contributory, with retiree contributions adjusted periodically, and contain other cost-sharing features such as deductibles and co-insurance. The life insurance plans are generally non-contributory.

The following tables set forth the change in benefit obligation, change in plan assets' funded status and amounts recognized in the Consolidated Balance Sheets related to the defined benefit pension and post-retirement health care benefit plans.

(In millions)	Pension Benefits 2002	Pension Benefits 2001	Health Care Benefits 2002	Health Care Benefits 2001
Change in benefit obligation				
Benefit obligation - beginning of year	$ 442.4	$ 415.3	$ 145.5	$ 155.0
Service cost	5.0	5.0	0.8	0.8
Interest cost	30.0	30.7	9.9	10.2
Participant contributions	--	--	2.8	2.0
Benefits paid	(32.5)	(34.2)	(17.4)	(16.8)
Acquired businesses and plan amendments	3.8	0.1	0.4	--
Change in discount rate and other	16.8	25.5	13.6	(5.7)
Benefit obligation - end of year	465.5	442.4	155.6	145.5
Projected salary increases	31.2	31.4	--	--
Accumulated benefit obligation	$434.3	$ 411.0	$ 155.6	$ 145.5
Change in plan assets				
Plan assets - beginning of year	$ 312.1	$ 353.2	$ --	$ --
Actual return on plan assets	(25.2)	(11.4)	--	--
Company contributions	13.3	4.5	--	--
Benefits paid	(32.5)	(34.2)	--	--
Plan assets - end of year	$ 267.7	$ 312.1	$ --	$ --
Funded status				
Projected benefit obligation in excess of plan assets	$ 197.7	$ 130.3	$ 155.6	$ 145.5
Unamortized transition liability	--	(0.7)	--	--
Prior service cost	(4.3)	(0.7)	(0.8)	(0.9)
Net actuarial gain (loss)	(189.1)	(126.2)	(20.0)	(5.9)
Cumulative pre-tax adjustment to recognized minimum liability	159.2	92.9	--	--
Accrued benefit cost	$ 163.5	$ 95.6	$ 134.8	$ 138.7

The following table summarizes the assumptions used by the consulting actuaries and the related benefit cost information.

(Dollars in millions)	Pension Benefits 2002	Pension Benefits 2001	Pension Benefits 2000	Health Care Benefits 2002	Health Care Benefits 2001	Health Care Benefits 2000
Assumptions						
Discount rate	6.75%	7.25%	7.5%	6.75%	7.25%	7.5%
Future compensation	4.0-7.0%	4.0-7.0%	4.0-7.0%	--	--	--
Expected long-term return on plan assets, beginning of year (2003 - 8.75%)	9.0%	9.0%	9.0%	--	--	--
Components of net periodic benefit costs						
Service cost	$ 5.0	$ 5.0	$ 4.2	$ 0.8	$ 0.8	$0.8
Interest cost	30.0	30.7	25.0	9.9	10.2	7.9
Expected return on plan assets	(27.4)	(29.9)	(26.8)	--	--	--
Amortization of unrecognized losses, transition obligation and prior service cost	6.9	3.7	1.9	(0.2)	(0.1)	--
	$ 14.5	$ 9.5	$ 4.3	$10.5	$10.9	$8.7

The combined projected benefit obligation (PBO) included the PBO of unfunded plans of $36.9 million at December 31, 2002 and $34.3 million at December 31, 2001. The accumulated benefit obligation (ABO) of these unfunded plans was $33.5 million at December 31, 2002 and $32.6 million at December 31, 2001. The remaining PBO relates to PolyOne's funded pension plans, including the acquired Hanna and O'Sullivan plans. At December 31, 2002, PolyOne had six plans with a PBO and an ABO in excess of the related plan assets. These included PolyOne's salaried and wage plans, two plans acquired with O'Sullivan and two plans acquired with Hanna. For these plans, at December 31, 2002, the PBO was $422.2 million, the ABO was $394.4 million and the fair value of plan assets was $258.5 million.

For measurement purposes, PolyOne assumed an average annual rate of increase in the per capita cost of health care benefits (health care cost trend rates) of 11.0% for 2003 declining gradually to 5.25% in 2009 and thereafter. A change in the assumed health care cost trend rates of 1% in each year would increase or decrease the benefit obligation as of December 31, 2002 by approximately $12 million, and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for 2002 by approximately $1 million.

PolyOne sponsors three voluntary retirement savings plans (RSP). Under provisions of these plans, eligible employees can receive Company matching contributions on up to the first 6% of their eligible earnings. In addition, PolyOne may make discretionary profit-sharing contributions to these plans for eligible employees. PolyOne made no profit-sharing contribution in 2002, 2001 or 2000. Also, PolyOne continues to sponsor defined retirement contribution plans for certain employees, which provide for Company contributions of a specified percentage of each employee's compensation. Following are PolyOne's contributions to the RSP:

(In millions)	2002	2001	2000
Retirement savings match	$ 8.9	$ 8.9	$ 9.2
Profit sharing	--	--	--
Defined retirement benefit	5.6	6.7	1.4
	$14.5	$15.6	$10.6

NOTE P - COMMITMENTS AND RELATED-PARTY INFORMATION

ENVIRONMENTAL PolyOne has been notified by federal and state environmental agencies and by private parties that it may be a potentially responsible party (PRP) in connection with several environmental sites. While government agencies frequently claim PRPs are jointly and severally liable at these sites, in our experience, interim and final allocation of liability costs are generally made based on the relative contribution of waste. PolyOne believes that its potential continuing liability with respect to such sites will not have a material adverse effect on its consolidated financial position, results of operations or cash flows. In addition, PolyOne initiates corrective and preventive environmental projects of its own to ensure safe and lawful activities at its operations. PolyOne believes that compliance with current governmental regulations at all levels will not have a material adverse effect on its financial condition. Based on estimates prepared by our environmental engineers and consultants, PolyOne, at December 31, 2002, had accruals totaling $52.3 million to cover probable future environmental expenditures relating to previously contaminated sites. The accrual represents our best estimate for the remaining probable remediation costs, based upon information and technology currently available. PolyOne's estimate of the liability may be revised as new regulations, technologies or additional information is obtained. Environmental expense incurred was $3.7 million in 2002, $3.9 million in 2001 and $2.2 million in 2000.

GUARANTEES In connection with the formation of OxyVinyls, PolyOne has guaranteed $42.3 million of OxyVinyls' borrowings from Occidental Petroleum Corporation. This guarantee terminates when OxyVinyls attains a defined amount of cumulative earnings before income taxes, depreciation and amortization. PolyOne also has guaranteed $91.4 million of SunBelt's outstanding senior secured notes in connection with the construction of the chlor-alkali facility in Macintosh, Alabama. The debt and guarantee thereon mature in 2017.

RELATED-PARTY TRANSACTIONS PolyOne purchases a substantial portion of its PVC resin and all of its VCM raw materials under the terms of supply agreements with OxyVinyls. The agreements have an initial term of 15 years, with PolyOne having the right to renew for two five-year option periods. PolyOne also has entered into various service agreements with OxyVinyls. Net amounts owed to OxyVinyls, primarily for raw material purchases, totaled $15.5 million at December 31, 2002 and $14.2 million at December 31, 2001. PolyOne's purchases of raw materials from OxyVinyls totaled approximately $179 million during 2002 and $184 million during 2001.

NOTE Q - OTHER EXPENSE, NET

(In millions)	2002	2001	2000
Currency exchange gain (loss), net of foreign exchange contracts	$(0.6)	$(0.8)	$ 2.8
Discount on sale of trade receivables	(4.8)	(8.1)	(5.8)
Investment writedown	(0.8)	(0.6)	--
Litigation settlement gain	--	3.1	--
Other income (expense), net	(3.0)	0.1	(1.6)

	$(9.2)	$(6.3)	$(4.6)

Notes: TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE R - INCOME TAXES

Income (loss) before income taxes, discontinued operations and cumulative effect of a change in accounting consists of the following:

(In millions)	2002	2001	2000
Domestic	$(22.1)	$(81.2)	$23.8
Foreign	10.3	7.0	0.8
	$(11.8)	$(74.2)	$24.6

A summary of income tax expense (benefit) follows:

(In millions)	2002	2001	2000
Current:			
Federal	$ --	$ --	$ 0.1
State	--	(0.5)	1.0
Foreign	7.5	2.6	--
Total current	7.5	2.1	1.1
Deferred:			
Federal	(7.5)	(26.1)	8.7
State	(2.8)	(4.3)	(1.2)
Foreign	(2.4)	1.2	0.8
Total deferred	(12.7)	(29.2)	8.3
Total tax expense (benefit)	$ (5.2)	$(27.1)	$ 9.4

The income tax rate (benefit) for financial reporting purposes varied from the federal statutory rate as follows:

	2002	2001	2000
Federal statutory income tax rate	(35.0%)	(35.0%)	35.0%
State tax, net of federal benefit	(15.6)	(4.3)	(0.4)
Goodwill	--	3.2	7.7
Differences in rates of foreign operations	12.8	0.6	2.5
Enacted tax rate reduction	--	--	(5.4)
Other, net	(6.3)	(1.0)	(1.2)
Effective income tax rate	(44.1%)	(36.5%)	38.2%

Significant components of PolyOne's deferred tax liabilities and assets at December 31 were as follows:

(In millions)	2002	2001
Deferred tax liabilities:		
Tax over book depreciation	$ 72.8	$ 72.2
Intangibles	10.7	23.0
Equity investments	149.9	140.9
State taxes	1.1	4.9
Other, net	30.3	36.4
Total deferred tax liabilities	$264.8	$277.4
Deferred tax assets:		
Post-retirement benefits other than pensions	49.7	51.7
Employment cost and pension	64.9	44.4
Employee separation and plant phaseout	12.0	17.4
Environmental	19.0	18.8
Net operating loss carryforward	109.2	82.3
LIFO inventory	--	2.5
Alternative minimum tax credit carryforward	5.8	5.8
Foreign net operating losses and tax credit carryforward	13.1	10.7
Valuation allowance	(32.4)	(10.7)
Other, net	26.6	31.5
Total deferred tax assets	267.9	254.4
Net deferred tax assets (liabilities)	$ 3.1	$(23.0)

SFAS No. 109, "Accounting for Income Taxes," requires deferred tax assets to be determined for each tax-paying component of an enterprise within each tax jurisdiction. The deferred tax assets indicated in the table are attributable primarily to tax jurisdictions where a recent history of losses has occurred. Therefore, PolyOne believes a valuation allowance is needed to reduce the deferred tax asset to an amount that is more likely than not to be realized. In addition, PolyOne has established a valuation allowance for deferred income tax benefits related to foreign subsidiary loss carryforwards and foreign tax credit carryforwards.

PolyOne had provided for U.S. federal and foreign withholding tax on $22.0

million, or 12%, of foreign subsidiaries' undistributed earnings as of December 31, 2002. Regarding the undistributed earnings on which no federal and foreign withholding tax has been provided, earnings are intended to be reinvested indefinitely. It is not practicable to determine the amount of income tax liability that would result had such earnings actually been repatriated.

PolyOne paid income taxes net of refunds of $1.6 million in 2002 and $4.2 million in 2000. PolyOne received income tax refunds net of taxes paid of $4.1 million in 2001. PolyOne has a net operating loss carryforward of approximately $311.9 million, of which $11.9 million will expire in 2011, $22.2 million will expire in 2012, $66.6 million will expire in 2018, $3.5 million will expire in 2019, $9.5 million will expire in 2020, $104.8 million will expire in 2021 and the remaining $93.4 million will expire in 2022. In addition, PolyOne has an alternative minimum tax credit carryforward of $5.8 million.

NOTE S - SHAREHOLDERS' EQUITY

PolyOne's incentive stock plans provide for the awarding or granting of options to purchase PolyOne common stock. Generally, options granted become exercisable at the rate of 35% after one year, 70% after two years and 100% after three years. For 2002 grants, the amount scheduled to vest in the third year may vest earlier based upon the stock performance. The term of each option cannot extend beyond 10 years from the date of grant. In 2002, in addition to the 10-year term option, stock options were granted that vest on the third anniversary of the date of grant and have a term of 39 months. All options under the plans have been granted at 100% of market (as defined) on the date of the grant. PolyOne also has a stock plan for non-employee directors under which options are granted.

In August 2000, shareholders approved the 2000 Stock Incentive Plan (Incentive Plan). The Incentive Plan is administered by a committee of the Board of Directors. Officers, employees and non-employee directors are eligible to participate. The Incentive Plan provides for the award of a broad variety of stock-based compensation alternatives such as non-qualified stock options, incentive stock options, restricted stock, performance awards and stock appreciation rights. A total of 4.5 million shares may be granted under the Incentive Plan. The options have the same term and pricing structure as options granted under PolyOne's other incentive stock plans.

A summary of stock option activity follows:

(In thousands, except per share data)	Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2000	6,938	$10.63
Hanna options assumed at merger date	4,295	15.24
Issued	2,628	10.19
Exercised	(121)	10.32
Forfeited	(84)	11.68
Outstanding at December 31, 2000	13,656	11.98
Issued	1,531	8.70
Exercised	(128)	8.41
Forfeited	(529)	11.69
Outstanding at December 31, 2001	14,530	11.68
Issued	1,505	12.23
Exercised	(782)	9.11
Forfeited	(2,199)	10.11
Outstanding at December 31, 2002	13,054	12.16
Exercisable at December 31, 2002	10,648	12.47
Exercisable at December 31, 2001	10,258	12.73
Exercisable at December 31, 2000	10,099	12.46
At December 31, 2002:		
Exercisable options:		
Exercise price: $8.38 - $13.00	6,633	10.11
Exercise price: $13.01 - $26.82	4,015	16.37
Unexercisable options:		
Exercise price: $8.38 - $13.00	2,406	10.80
Exercise price: $13.01 - $26.82	--	--

At December 31, 2002, the weighted-average remaining life for options with an exercise price of $13.00 or less was 5.9 years. Options with an exercise price of more than $13.00 had a remaining life of 3.7 years.

The compensation cost recognized relating to the stock portion of the annual incentive plans, three-year incentive plan and amortization of restricted stock awarded amounted to $1.4 million in 2002, $1.3 million in 2001 and $10.3 million in 2000. The weighted-average fair value per share of restricted stock and stock awards under the long-term incentive plan on the grant date was $12.22 for 2002, $7.34 for 2001 and $14.95 for 2000.

At December 31, 2002, approximately 13.1 million shares were reserved for future issuance upon exercise of stock options previously granted, and approximately 3.9 million shares were available for future grants under PolyOne's incentive plans.

During the first half of 2001, the Compensation Committee of PolyOne's Board of Directors authorized the issuance of 532,800 shares of restricted PolyOne stock to certain PolyOne executives. The restricted shares were valued at $7.22 per share and were issued from The Geon Company Share Ownership Trust. An additional 40,000 shares were issued in the fourth quarter of 2001. These shares were valued at $8.96 per share and were issued from shares held in treasury. During 2002, 3,000 shares were issued. The 2002 shares were valued at $12.22 per share and were issued from shares held in treasury. Shares vest and restrictions lapse three years from the date of grant. Accordingly, PolyOne has recorded the grants as unearned compensation to be recognized as compensation expense over the three-year vesting period.

NOTE T - SEGMENT INFORMATION

PolyOne operates in four business segments: Performance Plastics, Elastomers and Performance Additives (E&A), Distribution, and Resin and Intermediates (R&I). The accounting policies of each business segment are consistent with those described in the "Summary of Significant Accounting Policies." Inter-segment sales are accounted for at prices that generally approximate those for similar transactions with unaffiliated customers. The elimination of inter-segment sales revenue is included in the Other segment. Certain other corporate expenses and eliminations are also included in the Other segment. Business segment assets consist primarily of customer receivables, inventories, net property and goodwill. Cash, sales of accounts receivable and certain other assets not identified with a specific segment are included in the Other segment.

Senior management uses operating income before special items and EBITDA (defined as operating income plus depreciation and amortization before special items) to assess performance and allocate resources to business segments. Senior management believes such metrics are useful in its assessment of the underlying earnings power and operating cash flow of each business segment. EBITDA is a metric used by stock market analysts, financial institutions and investors. Special items include gains and losses associated with specific strategic initiatives such as restructuring or consolidation of operations, gains and losses attributable to divestment of joint ventures, and certain one-time items. Operating income before special items and EBITDA before special items are non-GAAP measures, and may not be comparable to financial performance measures presented by other companies.

(In millions)	Total	Performance Plastics	Elastomers and Performance Additives	Distribution	Resin and Intermediates	Other
Year ended December 31, 2002:						
Sales to external customers	$2,498.2	$1,621.6	$363.8	$512.8	$ --	$ --
Inter-segment sales	--	97.2	0.1	6.9	--	(104.2)
	2,498.2	1,718.8	363.9	519.7	--	(104.2)
Operating income (loss)	38.9	37.5	11.4	7.0	0.6	(17.6)
Employee separation and plant phaseout	1.1	1.1	--	--	--	--
Period plant phaseout costs incurred	1.1	1.1	--	--	--	--
Plant phaseout accelerated depreciation	1.8	1.8	--	--	--	--
Restructuring and plant idling costs incurred by equity affiliates (1)	4.9	--	--	--	4.9	--
Loss on divestiture of equity investments	5.1	--	--	--	5.1	--
Operating income (loss) before employee separation, plant phaseout costs, plant idling and investment divestiture costs	52.9	41.5	11.4	7.0	10.6	(17.6)
Depreciation and amortization	70.7	55.7	11.7	1.8	0.8	0.7
EBITDA before employee separation, plant phaseout costs, plant idling and investment divestiture costs	123.6	97.2	23.1	8.8	11.4	(16.9)
Total assets	1,997.5	1,389.2	252.2	140.6	231.1	(15.6)
Capital expenditures	75.1	58.3	4.7	1.0	--	11.1

(1) PolyOne's share of OxyVinyls' employee severance and liabilities associated with the temporary idling of a plant in December 2001 and the 2002 asset writeoff and decommissioning costs related to the permanent closing of specific production assets included in the idled plant.

(In millions)	Total	Performance Plastics	Elastomers and Performance Additives	Distribution	Resin and Intermediates	Other
Year ended December 31, 2001:						
Sales to external customers	$2,581.1	$1,724.7	$402.2	$454.2	$ --	$ --
Inter-segment sales	--	39.9	0.4	8.4	--	(48.7)
	2,581.1	1,764.6	402.6	462.6	--	(48.7)
Operating income (loss)	(29.5)	14.6	10.2	(0.4)	(31.5)	(22.4)
Employee separation and plant phaseout	36.1	36.1	--	--	--	--
Merger and integration costs	5.9	0.1	--	--	--	5.8
Period cost of closed facilities	0.2	0.2	--	--	--	--
Restructuring and plant idling costs incurred by equity affiliates (2)	9.4	--	--	--	9.4	--
Loss on divestiture of equity investments	9.5	--	--	--	9.5	--
Operating income (loss) before restructuring costs, merger and integration costs, and executive separation costs	31.6	51.0	10.2	(0.4)	(12.6)	(16.6)
Depreciation and amortization	89.2	68.2	16.6	2.9	--	1.5
EBITDA before restructuring costs, merger and integration costs, and executive separation costs	120.8	119.2	26.8	2.5	(12.6)	(15.1)
Total assets	2,051.5	1,543.0	445.1	176.2	239.7	(352.5)
Capital expenditures	78.1	31.0	10.0	1.9	--	35.2
Year ended December 31, 2000:						
Sales to external customers	$1,861.3	$1,559.3	$145.5	$156.5	$ --	$ --
Inter-segment sales	--	8.8	0.3	2.4	--	(11.5)
	1,861.3	1,568.1	145.8	158.9	--	(11.5)
Operating income (loss)	63.9	51.6	7.6	2.1	27.9	(25.3)
Employee separation and plant phaseout	2.8	2.8	--	--	--	--
Charge for acquired profit in inventory	2.8	2.3	0.5	--	--	--
Merger and integration costs	9.5	--	--	--	--	9.5
Pension termination and debt placement costs	1.6	--	--	--	--	1.6
Operating income (loss) before restructuring costs, acquired profit in inventory, merger and integration costs, and pension termination and debt placement costs	80.6	56.7	8.1	2.1	27.9	(14.2)
Depreciation and amortization	56.6	48.7	5.8	2.1	--	--
EBITDA before restructuring costs, acquired profit in inventory, merger and integration costs, and pension termination and debt placement costs	137.2	105.4	13.9	4.2	27.9	(14.2)
Total assets	2,460.7	1,607.6	320.9	167.0	262.5	102.7
Capital expenditures	60.7	40.9	7.1	0.6	--	12.1

(2) PolyOne's share of OxyVinyls' employee severance costs and liabilities associated with the temporary idling of a plant and Australian Vinyls Corporation's employee severance and restructuring costs.

A breakdown of the Performance Plastics segment's sales for the years ended December 31, 2002 and 2001 and the changes versus the respective prior-year periods, by primary product group, is as follows:

	Year Ended December 31, 2002 vs. 2001			Year Ended December 31, 2001 vs. 2000		
	2002 Sales $	2002 Sales $	2002 Shipment Lbs.	2001 Sales $	2001 Sales $	2001 Shipment Lbs.
	% of Total	% Change vs. 2001	% Change vs. 2001	% of Total	% Change vs. 2000	% Change vs. 2000
North American PCC	56%	-9%	-4%	57%	-20%	-19%
International PCC	20%	15%	7%	20%	-7%	-3%
Specialty Resins and Formulators	15%	3%	4%	14%	-11%	-12%
Engineered Films	9%	-4%	-3%	9%	-15%	-16%
Total Performance Plastics	100%	-3%	-1%	100%	-16%	-16%

Earnings of equity affiliates are included in the related business segment earnings (loss), and the investment in equity affiliates is included in related business segment assets. Amounts related to equity affiliates included in the business segment information, excluding amounts related to losses on divestitures of equity investments, are as follows:

(In millions)	2002	2001	2000
Earnings (loss) of equity affiliates:			
Performance Plastics	$ 6.8	$ 7.2	$ 1.2
R&I	15.3	(14.7)	37.9
Other	--	(0.4)	--
Subtotal	22.1	(7.9)	39.1
Minority interest	(1.9)	(1.9)	(1.4)
Total	$ 20.2	$ (9.8)	$37.7
Investment in equity affiliates:			
Performance Plastics	$ 51.9	$ 59.7	$ 60.0
R&I	219.9	228.2	251.6
Total	$271.8	$287.9	$311.6

PolyOne's sales are principally to customers in the United States, Europe, Canada and Asia/Pacific, and the majority of its assets are located in these geographic areas. Following is a summary of sales based on geographic areas from which the sales originated and assets by location:

(In millions)	2002	2001	2000
Net sales:			
United States	$1,915.5	$2,031.4	$1,502.9
Europe	291.9	271.9	105.7
Canada	168.1	180.3	215.4
Other	122.7	97.5	37.3
Long-lived assets:			
United States	$ 893.0	$ 982.5	$1,009.1
Europe	215.7	199.3	195.2
Canada	50.0	50.7	61.8
Other	52.8	53.9	55.4

NOTE U - WEIGHTED-AVERAGE SHARES USED IN COMPUTING EARNINGS PER SHARE

(In millions)	2002	2001	2000
Weighted-average shares - basic:			
Weighted-average shares outstanding	91.3	90.3	61.8
Less unearned portion of restricted stock awards included in outstanding shares	(0.5)	(0.5)	(0.4)
	90.8	89.8	61.4
Weighted-average shares - diluted:			
Weighted-average shares outstanding - basic	90.8	89.8	61.4
Plus unearned portion of restricted stock awards included in outstanding shares	--	--	0.4
Plus dilutive impact of stock options and stock awards	--	--	0.2
	90.8	89.8	62.0

The historical 2000 share amounts have been restated to reflect the conversion of each outstanding share of Geon common stock into two shares of PolyOne. At December 31, 2002 and December 31, 2001, PolyOne had excluded all outstanding options from the calculation of diluted loss per share because they would have had an anti-dilutive effect (0.4 million shares in 2002 and 0.1 million shares in 2001).

NOTE V - FINANCIAL INSTRUMENTS

PolyOne transacts business in various foreign currencies, and is subject to financial exposure from foreign exchange rate movement between the date a foreign currency transaction is recorded and the date it is consummated. To mitigate this risk, PolyOne enters into foreign exchange contracts. Gains and losses on these contracts generally offset gains or losses on the assets and liabilities being hedged, and are recorded as other income or expense. Additionally, PolyOne enters into inter-company lending transactions. PolyOne also enters into foreign exchange contracts related to this foreign exchange exposure. Realized and unrealized gains and losses on these contracts are recorded as other income or expense. PolyOne does not hold or issue financial instruments for trading purposes.

The following table summarizes by currency the contractual amounts of PolyOne's foreign exchange contracts at December 31, 2002 (in millions). Foreign currency amounts are translated at exchange rates as of December 31, 2002. The "Buy" amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the "Sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies.

Currency	Buy	Sell
U.S. dollar	$59.4	$ 0.6
Euro	--	112.6
British pound sterling	--	12.3
Canadian dollar	48.1	--
Other	14.8	2.9

The following methods and assumptions were used by PolyOne in estimating fair value disclosures for financial instruments:

CASH AND CASH EQUIVALENTS: The carrying amounts reported in the balance sheet approximate fair value.

LONG- AND SHORT-TERM DEBT: The carrying amount of PolyOne's short-term borrowings approximates fair value. The fair value of PolyOne's senior notes, debentures and medium-term notes is based on quoted market prices. The carrying amount of PolyOne's borrowings under its variable-interest rate long-term revolving credit agreements and other long-term borrowings approximates fair value.

FOREIGN EXCHANGE CONTRACTS: The fair value of short-term foreign exchange contracts is based on exchange rates at December 31, 2002. The fair value of long-term foreign exchange contracts is based on quoted market prices for contracts with similar maturities.

INTEREST RATE SWAPS: The fair value of interest rate swap agreements, obtained from the respective financial institutions, is based on current rates of interest and is computed as the net present value of the remaining exchange obligations under the terms of the contract.

The carrying amounts and fair values of PolyOne's financial instruments at December 31 for the years 2002 and 2001 are as follows:

	2002		2001	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 41.4	$ 41.4	$ 18.2	$ 18.2

Long-term debt				
9.375% senior notes	90.0	88.0	91.5	91.3
6.875% debentures	78.7	67.5	75.2	72.4
7.500% debentures	50.0	33.8	50.0	43.1
8.875% senior notes	198.3	173.0	--	--
Medium-term notes	155.6	134.0	151.1	148.0
Bank borrowings	10.6	10.6	63.6	63.6
Foreign exchange contracts	(5.4)	(5.4)	(0.9)	(0.9)
Interest rate swaps	--	--	(1.6)	(1.6)

Other Data: QUARTERLY DATA (UNAUDITED)

(In millions)	2002 Quarters Fourth	Third	Second	First	2001 Quarters Fourth	Third	Second	First
Sales	$580.3	$650.7	$670.9	$596.3	$573.2	$642.8	$676.3	$688.8
Employee separation and plant phaseout	--	0.2	--	0.9	26.3	--	0.9	8.9
Operating income (loss)	(13.4)	26.3	21.6	4.4	(35.9)	14.8	15.7	(24.1)
Income (loss) before discontinued operations and cumulative effect of a change in accounting	(17.6)	9.6	5.3	(3.9)	(30.1)	2.6	2.1	(21.7)
Income from discontinued operations, net of taxes	0.1	0.2	0.8	0.3	--	0.3	0.4	0.3
Cumulative effect of change in accounting, net of taxes	--	--	--	(53.7)	--	--	--	--
Net income (loss)	(17.5)	9.8	6.1	(57.3)	(30.1)	2.9	2.5	(21.4)
Earnings (loss) per share:								
Basic earnings (loss) per share:								
Before discontinued operations and change in method of accounting	$(0.19)	$ 0.11	$ 0.06	$(0.04)	$(0.33)	$ 0.03	$ 0.03	$(0.24)
Discontinued operations	--	--	0.01	--	--	--	--	--
Change in method of accounting	--	--	--	(0.60)	--	--	--	--
Net income (loss)	$(0.19)	$ 0.11	$ 0.07	$(0.64)	$(0.33)	$ 0.03	$ 0.03	$(0.24)
Diluted earnings (loss) per share:								
Before discontinued operations and change in method of accounting	$(0.19)	$ 0.11	$ 0.06	$(0.04)	$(0.33)	$ 0.03	$ 0.03	$(0.24)
Discontinued operations	--	--	0.01	--	--	--	--	--
Change in method of accounting	--	--	--	(0.60)	--	--	--	--
Net income (loss)	$(0.19)	$ 0.11	$ 0.07	$(0.64)	$(0.33)	$ 0.03	$ 0.03	$(0.24)
Dividend paid per common share	0.0625	0.0625	0.0625	0.0625	0.0625	0.0625	0.0625	0.0625
Common stock price								
High	$ 9.30	$12.30	$13.40	$12.74	$10.55	$10.70	$10.65	$ 9.49
Low	3.03	8.11	10.49	9.55	7.50	7.00	8.00	5.69

Below is a table of special items included in the 2002 and 2001 quarterly operating results. The special items include gains and losses associated with specific strategic initiatives such as restructuring or consolidation of operations, gains and losses associated with the divestment of joint ventures and certain one-time items.

(In millions)	2002 Quarters Fourth	Third	Second	First	2001 Quarters Fourth	Third	Second	First
Employee separation and plant phaseout costs	$ --	$(0.2)	$ --	$(0.9)	$(26.3)	$ --	$(0.9)	$(8.9)
Period plant phaseout costs incurred	(0.4)	(0.5)	(0.1)	(0.1)	--	--	(0.2)	--
Plant phaseout accelerated depreciation	(0.3)	(0.5)	(0.5)	(0.5)	--	--	--	--
Equity investment restructuring and plant idling costs (1)(2)	--	(4.1)	(0.1)	(0.7)	(3.3)	(5.1)	--	(1.0)
Merger and integration costs	--	--	--	--	--	(0.1)	(0.5)	(5.3)
Loss on divestiture of equity investment	(3.6)	--	--	(1.5)	(9.5)	--	--	--
Subtotal - operating loss	(4.3)	(5.3)	(0.7)	(3.7)	(39.1)	(5.2)	(1.6)	(15.2)
Investment writedown	(0.8)	--	--	--	--	--	--	(0.6)
Litigation settlement gain	--	--	--	--	--	--	4.1	--
Total - pre-tax (expense) income	(5.1)	(5.3)	(0.7)	(3.7)	(39.1)	(5.2)	2.5	(15.8)
Income tax benefit (expense)	2.0	1.9	0.2	1.4	14.5	2.0	(1.0)	6.2
Total - after-tax (expense) income	$(3.1)	$(3.4)	$(0.5)	$(2.3)	$(24.6)	$(3.2)	$ 1.5	$(9.6)

(1) 2002 - PolyOne's share of OxyVinyls' employee severance and liabilities associated with the temporary idling of a plant in December 2001 and the 2002 asset writeoff and decommissioning costs related to the permanent closing of specific production assets included in the idled plant.

(2) 2001 - PolyOne's share of OxyVinyls' employee severance costs and liabilities associated with the temporary idling of a plant and Australian Vinyls Corporation's employee severance and restructuring costs.

- - SELECTED FINANCIAL DATA

(In millions, except per share data)	2002	2001	2000	1999	1998
Sales	$2,498.2	$2,581.1	$1,861.3	$1,261.2	$1,284.4
Employee separation and plant phaseout	1.1	36.1	2.8	0.5	14.6
Operating income (loss)	38.9	(29.5)	63.9	99.7	41.0
Income (loss) before discontinued operations and cumulative effect of a change in accounting	(6.6)	(47.1)	15.2	106.2	13.8
Discontinued operations	1.4	1.0	0.7	--	--
Cumulative effect of change in method of accounting	(53.7)	--	--	(1.5)	--
Net income (loss)	(58.9)	(46.1)	15.9	104.7	13.8
Basic earnings (loss) per share:					
Before discontinued operations and change in method of accounting	$ (0.07)	$ (0.52)	$ 0.25	$ 2.28	$ 0.30
Discontinued operations	0.01	0.01	0.01	--	--
Change in method of accounting	(0.59)	--	--	(0.03)	--
Net income (loss)	(0.65)	(0.51)	0.26	2.25	0.30
Diluted earnings (loss) per share:					
Before discontinued operations and change in method of accounting	$ (0.07)	$ (0.52)	$ 0.25	$ 2.18	$ 0.29
Discontinued operations	0.01	0.01	0.01	--	--
Change in method of accounting	(0.59)	--	--	(0.03)	--
Net income (loss)	(0.65)	(0.51)	0.26	2.15	0.29
Dividends per common share	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 0.25
Total assets	$1,997.5	$2,051.5	$2,430.6	$1,162.6	$ 802.0
Long-term debt	492.2	426.8	430.5	130.9	135.4

The historical results include the following business acquisitions from the acquisition date indicated forward: Synergistics Industries Limited from October 31, 1997; Plast-O-Meric, Inc. and the Wilflex division of Flexible Products Company from June 1, 1998; Adchem, Inc. from September 1, 1998; Acrol Holdings Limited from July 1, 1999; O'Sullivan Corporation from July 8, 1999; Dennis Chemical Company, Inc. from September 8, 1999; and M.A. Hanna Company from September 1, 2000. In addition, 1999 results of operations reflect the formation of Oxy Vinyls, LP on April 30, 1999 and the contribution of substantially all of Geon's formerly consolidated R&I business segment operations to the partnership. In connection with this, PolyOne acquired businesses from Occidental Chemical Corporation and formed a powder compounding joint venture, all of which are included in PolyOne's Consolidated Results of Operations from May 1, 1999.

In December 2002, PolyOne acquired Transcolor and sold its 70% ownership interest in Softer. With the sale of Softer, all its historical operating results have been reported separately as a discontinued operation.

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF POLYONE CORPORATION:

We have audited the accompanying consolidated balance sheets of PolyOne Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002, appearing on pages 13, 14, 18 and 22 through 41. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Oxy Vinyls, LP as of and for the year ended December 31, 2002 (a limited partnership in which the Company has a 24% interest) have been audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to 2002 data included for Oxy Vinyls, LP is based solely on their report. The financial statements of Oxy Vinyls, LP as of December 31, 2001 and for the two years then ended were audited by other auditors who have ceased operations and whose report dated January 28, 2002 expressed an unqualified opinion on those financial statements. This report was previously furnished to us and our opinion, insofar as it relates to 2001 and 2000 data included for Oxy Vinyls, LP, is based solely on their report.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PolyOne Corporation and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note B to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," in 2002.

/s/ Ernst & Young LLP

Cleveland, Ohio
January 28, 2003

MANAGEMENT'S REPORT

Management of PolyOne Corporation is responsible for the preparation of the consolidated financial statements and other information included in the annual report. The financial statements, and other information included in the annual report, fairly present in all material respects the financial condition, results of operations and cash flows of PolyOne Corporation for the year ended December 31, 2002. Where necessary, this information reflects management's estimates and judgments based upon information that is currently available.

Management is also responsible for maintaining a system of internal controls and procedures for financial reporting that is designed to provide reasonable assurance that the Company's transactions are properly authorized, that its assets are safeguarded against unauthorized or improper use, and that the Company's transactions are properly recorded and reported to permit the preparation of the financial statements in conformity with generally accepted accounting principles. In addition, management is responsible for maintaining disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company is captured and reported in a timely manner.

Management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures at December 31, 2002 and found them to be adequate to accomplish the objectives described above. Further, management believes PolyOne's financial reporting internal controls as of December 31, 2002 were effective and adequate to provide the assurance described above.

Thomas A. Waltermire
Chairman of the Board, President and Chief Executive Officer

W. David Wilson
Vice President and Chief Financial Officer

January 28, 2003

- - FORWARD-LOOKING STATEMENTS

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

In this annual report, statements that are not reported financial results or other historical information are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give our current expectations or forecasts of future events, and are not guarantees of future performance. They are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective changes in raw material costs or product pricing or product demand, future performance or results of current and anticipated market conditions and market strategies, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results. Among the factors that could cause actual results to differ materially are the following:

- An inability to achieve or delays in achieving estimated and actual savings related to consolidation and restructuring programs

- Delays in achieving or inability to achieve our strategic value capture initiatives, including cost reduction and employee productivity goals, or achievement of less than the anticipated financial benefit from the initiatives

- The effect on foreign operations of currency fluctuations, tariffs, nationalization, exchange controls, limitations on foreign investment in local businesses and other political, economic and regulatory risks

- Changes in U.S., regional or world polymer and/or rubber consumption growth rates affecting our markets

- Changes in global industry capacity or in the rate at which anticipated changes in industry capacity come online in the polyvinyl chloride (PVC), chlor-alkali, vinyl chloride monomer (VCM) or other industries in which we participate

- Fluctuations in raw material prices, quality and supply and in energy prices and supply; in particular, fluctuations outside the normal range of industry cycles

- Production outages or material costs associated with scheduled or unscheduled maintenance programs

- Costs or difficulties and delays related to the operation of joint venture entities

- Lack of day-to-day operating control, including procurement of raw materials, of equity or joint venture affiliates

- Partial control over investment decisions and dividend distribution policy of the OxyVinyls partnership and our other minority equity holdings

- An inability to launch new products and/or services that strategically fit our businesses

- The possibility of goodwill impairment

- An inability to maintain any required licenses or permits

- An inability to comply with any environmental laws and regulations

- A delay or inability to achieve targeted debt levels through divestitures or other means.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Corporate Information:

Executive Officers
THOMAS A. WALTERMIRE
Chairman of the Board, President
and Chief Executive Officer

V. LANCE MITCHELL
Group Vice President, Global Plastics

JOHN E. QUINN
Vice President and General Manager,
Elastomers and Performance Additives

WENDY C. SHIBA
Chief Legal Officer and Secretary

KENNETH M. SMITH
Chief Information and
Human Resources Officer

W. DAVID WILSON
Chief Financial Officer

Other Officers

ROGER W. AVAKIAN
Chief Technology Officer

BERNARD BAERT
Vice President and General Manager,
International Compounds and Colors

DENIS L. BELZILE
Vice President and General Manager,
Specialty Resins and Formulators

THOMAS G. BOLGER
Vice President and General Manager,
Color and Additives

DENNIS A. COCCO
Vice President,
Investor Relations and Communications

JAMES C. GRAY
Vice President and General Manager,
North American Engineered Materials

DANIEL L. KICKEL
Vice President, Sourcing

DAVID D. QUESTER
Vice President and General Manager,
Engineered Films

MICHAEL L. RADEMACHER
Vice President and General Manager,
Distribution

JOHN L. RASTETTER
Treasurer

ROBERT M. ROSENAU
Vice President and General Manager,
North American Vinyl Compounds

GREGORY P. SMITH
Controller

Internet Access...

Information on PolyOne's products and services, news releases, EDGAR filings, Form 10-K, 10-Q, etc., as well as an electronic version of this annual report, are available on the Internet at www.polyone.com.

Board of Directors

THOMAS A. WALTERMIRE, 53
Chairman of the Board, President and Chief Executive Officer

J. DOUGLAS CAMPBELL, 61
Retired President and Chief Executive Officer, Arcadian Corporation - a chemicals and fertilizer manufacturer
Committees: 1, 4*

DR. CAROL A. CARTWRIGHT, 61
President, Kent State University - a public higher education institution
Committees: 1, 4

GALE DUFF-BLOOM, 63
Retired President, Company Communications and Corporate Image, J. C. Penney Company, Inc. - a major retailer
Committees: 2*

WAYNE R. EMBRY, 65
Retired President and Chief Operating Officer, Team Division, Cleveland Cavaliers - a professional basketball team
Committees: 2, 3

ROBERT A. GARDA, 64
Executive-in-Residence, The Fuqua School of Business, Duke University - a private higher education institution
Committees: 2, 4

GORDON D. HARNETT, 60
Chairman, President and Chief Executive Officer, Brush Engineered Materials Inc. - - a supplier and producer of engineered materials
Committees: 1*, 3

DAVID H. HOAG, 63
Retired Chairman, LTV Corporation - a steel manufacturer
Committees: 2, 4

D. LARRY MOORE, 66
Retired President and Chief Operating Officer, Honeywell, Inc. - a manufacturer of control systems for home, industry and aviation
Committees: 1, 3*

FARAH M. WALTERS, 58
Retired President and Chief Executive Officer, University Hospitals Health System and University Hospitals of Cleveland - a health care provider
Committees: 2,3

COMMITTEES:

1 Audit
2 Compensation and Governance
3 Environmental, Health and Safety
4 Financial Policy
* Denotes Chairperson

Corporation Stock Exchange Listing

PolyOne Corporation Common Stock is listed on the New York Stock Exchange.
Symbol: POL.

Stockholder Inquiries

If you have any questions concerning your account as a stockholder, name or address changes, inquiries regarding dividend checks or stock certificates, or if you need tax information regarding your account, please contact our transfer agent:

EquiServe Trust Company, N.A.
P.O. Box 2500
Jersey City, New Jersey 07303
Phone: (800) 317-4445

Complimentary copies of Form 10-K and other reports filed with the Securities and Exchange Commission are available online at www.polyone.com or from:

Investor Affairs Administrator
PolyOne Corporation
Suite 36-5000
200 Public Square
Cleveland, Ohio 44114
Phone: (216) 589-4376

Annual Meeting

The annual meeting of stockholders of PolyOne Corporation will be held May 15, 2003 at 9:00 a.m. at The Forum Conference and Education Center, One Cleveland Center, 1375 East 9th Street, Cleveland, Ohio.

The meeting notice and proxy materials were mailed to stockholders with this report. PolyOne Corporation urges all stockholders to vote their proxies so that they can participate in the decisions at the annual meeting.

Financial Information

Security analysts and representatives of financial institutions are invited to contact:

W. David Wilson
Chief Financial Officer
Phone: (216) 589-4038
Fax: (216) 589-4280
E-mail: wdavid.wilson@polyone.com

Financial Information and Media Contact
Dennis A. Cocco
Vice President, Investor Relations and Communications
Phone: (216) 589-4018
Fax: (216) 589-4077
E-mail: dennis.cocco@polyone.com

Auditors
Ernst & Young LLP
1300 Huntington Building
925 Euclid Avenue
Cleveland, Ohio 44115-1405

[POLYONE LOGO]

www.polyone.com

Exhibit 13.2

OXY VINYLS, LP AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2002

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

To the Partners
Oxy Vinyls, LP:

We have audited the consolidated balance sheet of Oxy Vinyls, LP and subsidiaries (the "Partnership") as of December 31, 2002, and the related consolidated statements of operations, changes in partners' capital, and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit. The 2001 and 2000 financial statements of the Partnership were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated January 28, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oxy Vinyls, LP and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

January 27, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Partners, Oxy Vinyls, LP:

We have audited the accompanying consolidated balance sheets of Oxy Vinyls, LP and subsidiaries (the "Partnership") as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in partners' capital, and cash flows for the years ended December 31, 2001 and 2000, and for the period from April 30, 1999 through December 31, 1999. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years ended December 31, 2001 and 2000, and for the period from April 30, 1999 through December 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Dallas, Texas,
January 28, 2002

THIS IS A COPY OF THE AUDIT REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP IN CONNECTIOIN WITH THE ISSUANCE OF OXY VINYLS, LP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001 FOR INCLUSION IN POLYONE CORPORATION'S FORM 10-K. THIS AUDIT REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP IN CONNECTION WITH THE COMPLETION OF OXY VINYLS, LP'S 2002 FINANCIAL STATEMENTS OR THE FILING OF POLYONE CORPORATION'S FORM 10-K. SEE EXHIBIT 23.3 FOR FURTHER DISCUSSION.

OXY VINYLS, LP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

(Amounts in thousands)

	2002	2001
CURRENT ASSETS		
Cash and cash equivalents	$ 4,503	$ 9,303
Trade receivables	25,366	4,863
Other receivables	1,627	6,798
Foreign income taxes receivable	-	2,868
Receivable from Occidental Receivables Corp., net	129,157	138,607
Receivable from Occidental Chemical Corporation, net	2,444	16,548
Inventories	109,244	105,167
Prepaid expenses	2,728	3,074
Total current assets	275,069	287,228
Loans receivable from Occidental Petroleum Corporation, net	36,830	17,503
Property, plant and equipment, net	926,543	967,475
Other assets, net	15,728	21,126
TOTAL ASSETS	$1,254,170	$1,293,332
CURRENT LIABILITIES		
Accounts payable	$ 109,819	$ 117,912
Accrued liabilities	38,939	43,847
Accrued property taxes	14,205	15,133
Foreign income taxes payable	725	-
Payable to PolyOne Corporation, net	330	1,811
Total current liabilities	164,018	178,703
Equity investment in unconsolidated subsidiary	29,785	47,250
Note payable to Occidental Chemical Corporation	9,964	9,964
Loan payable to Occidental Petroleum Corporation	13,700	-
Postretirement benefit obligations	18,612	16,723
Deferred credits and other liabilities	9,175	7,652
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
PARTNERS' CAPITAL	1,008,916	1,033,040
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$1,254,170	$1,293,332

The accompanying notes are an integral part of these consolidated financial statements.

OXY VINYLS, LP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2002, 2001 and 2000

(Amounts in thousands)

	2002	2001	2000
REVENUES			
Net sales	$ 1,377,098	$ 1,546,254	$ 1,892,292
Equity in earnings (losses) of unconsolidated subsidiary	17,465	(18,181)	(3,550)
	1,394,563	1,528,073	1,888,742
COSTS AND OTHER DEDUCTIONS			
Cost of sales	1,240,509	1,472,100	1,683,052
Selling, general and administrative and other operating expenses	62,200	70,687	58,423
Gain on sale of assets	-	-	(912)
Interest (income) expense, net	(373)	1,052	1,394
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	92,227	(15,766)	146,785
Provision (benefit) for income taxes	3,784	(1,836)	593
NET INCOME (LOSS)	$ 88,443	$ (13,930)	$ 146,192

The accompanying notes are an integral part of these consolidated financial statements.

OXY VINYLS, LP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

For the Years Ended December 31, 2002, 2001 and 2000

(Amounts in thousands)

	Occidental PVC LP Inc.	Occidental PVC LLC	1999 PVC Partner Inc.	Total Partners' Capital
Balance at December 31, 1999	$ 760,717	$ 10,145	$ 243,429	$ 1,014,291
Net income	109,645	1,461	35,086	146,192
Distributions to partners	(82,031)	(1,095)	(26,249)	(109,375)
Balance at December 31, 2000	788,331	10,511	252,266	1,051,108
Net loss	(10,447)	(140)	(3,343)	(13,930)
Non-cash distributions to partners	(3,104)	(41)	(993)	(4,138)
Balance at December 31, 2001	774,780	10,330	247,930	1,033,040
Net income	66,332	885	21,226	88,443
Distributions to partners	(84,425)	(1,126)	(27,016)	(112,567)
Balance at December 31, 2002	$ 756,687	$ 10,089	$ 242,140	$ 1,008,916

The accompanying notes are an integral part of these consolidated financial statements.

OXY VINYLS, LP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002, 2001 and 2000

(Amounts in thousands)

	2002	2001	2000
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 88,443	$ (13,930)	$ 146,192
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	65,208	63,135	60,112
Equity in (earnings) losses of unconsolidated subsidiary	(17,465)	18,181	3,550
Gain on disposition of assets, net	-	-	(912)
Increase (decrease) deferred foreign income taxes	1,610	(488)	1,322
Other noncash charges (credits) to income	18,802	(1,687)	7,998
Changes in operating assets and liabilities:			
(Increase) decrease in trade and other receivables	(15,332)	28,186	(17,043)
Decrease in loans receivable from OxyMar	-	-	12,500
(Increase) decrease in inventories	(4,077)	17,336	(16,977)
Decrease in receivables from Occidental Receivables Corp.	9,450	11,084	50,350
Decrease (increase) in foreign income taxes receivable	2,868	2,132	(8,278)
Increase in foreign income taxes payable	725	-	-
Decrease (increase) in prepaid expenses	346	1,877	(2,102)
Decrease in accounts payable and accrued liabilities	(16,429)	(63,698)	(31,161)
Decrease (increase) in receivable from Occidental Chemical Corporation, net	14,104	(9,973)	3,287
(Decrease) increase in payable to PolyOne Corporation, net	(1,481)	(6,844)	624
Other operating, net	6,236	9,614	(6,808)
Net cash provided by operating activities	153,008	54,925	202,654
CASH FLOW FROM INVESTING ACTIVITIES:			
Proceeds from sale of assets	-	-	3,328
Capital expenditures	(39,614)	(61,765)	(67,001)
Net cash used by investing activities	(39,614)	(61,765)	(63,673)
CASH FLOW FROM FINANCING ACTIVITIES:			
Payments on long term-debt	-	(38,260)	(16,296)
Proceeds from note payable to Occidental Chemical Corporation	-	9,964	-
Distributions to partners	(112,567)	-	(109,375)
(Increase) decrease in loans receivable from Occidental Petroleum Corporation	(19,327)	28,497	(17,210)
Decrease in loan payable from Occidental Petroleum Corporation	13,700	-	-
Net cash (used) provided by financing activities	(118,194)	201	(142,881)
Decrease in cash and cash equivalents	(4,800)	(6,639)	(3,900)
Cash and cash equivalents, beginning of year	9,303	15,942	19,842
Cash and cash equivalents, end of year	$ 4,503	$ 9,303	$ 15,942

The accompanying notes are an integral part of these consolidated financial statements.

OXY VINYLS, LP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

(1) FORMATION AND OPERATIONS -

Oxy Vinyls, LP ("OxyVinyls" or the "Partnership"), a Delaware limited partnership, was formed on April 6, 1999, pursuant to a Limited Partnership Agreement among Occidental PVC LP, Inc. (the "Oxy Limited Partner") and Occidental PVC, LLC (the "Oxy General Partner"), wholly-owned subsidiaries of Occidental Chemical Corporation ("OCC") and 1999 PVC Partner Inc., (the "PolyOne Limited Partner"), a subsidiary of PolyOne Corporation ("PolyOne"). The contributions and related transactions hereinafter described in this Note were effective, and the Partnership commenced operations, as of April 30, 1999, at which time the Limited Partnership Agreement was amended pursuant to a First Amended and Restated Limited Partnership Agreement dated as of April 30, 1999 (collectively with the Limited Partnership Agreement, the "Partnership Agreement"). Through the Oxy General Partner and the Oxy Limited Partner, OCC indirectly owns a seventy-six percent interest in the Partnership. OCC is an indirect, wholly-owned subsidiary of Occidental Petroleum Corporation ("OPC"). Through the PolyOne Limited Partner, PolyOne indirectly owns a 24 percent interest in the Partnership.

The Partnership owns and operates polyvinyl chloride ("PVC") and vinyl chloride monomer ("VCM") assets in the United States that were contributed on behalf of the Oxy General Partner and the Oxy Limited Partner by OCC, and on behalf of the PolyOne Limited Partner, by PolyOne. These assets consist of several manufacturing facilities on the U.S. Gulf Coast, as well as manufacturing facilities in Kentucky and New Jersey and two chlor-alkali and cogeneration facilities near Houston, Texas. A fifty percent equity interest in OxyMar, a Texas general partnership between Oxy VCM Corporation ("Oxy VCM"), an indirect wholly-owned subsidiary of OPC, and U.S. VCM Corporation ("U.S. VCM"), a wholly-owned subsidiary of Marubeni Corporation ("Marubeni"), a Japanese corporation, was contributed to the Partnership through the merger of Oxy VCM into the Oxy General Partner and the subsequent transfer by the Oxy General Partner of its equity interest in OxyMar to the Partnership. (See Note 2.)

The Partnership also owns and operates two PVC manufacturing facilities located in Ontario and Alberta, Canada. Ownership of these Canadian assets was acquired through a transfer by PolyOne Canada Inc., a wholly-owned Canadian subsidiary of PolyOne, of the capital stock of Oxy Vinyls Canada Inc. ("OxyVinyls Canada") to 3547728 Canada, Inc., an indirect Canadian subsidiary of the Partnership. For the capital stock of OxyVinyls Canada, 3547728 Canada, Inc. paid $36 million U.S. dollars borrowed by the Partnership from OPC and contributed by the Partnership as capital to its subsidiary, LaPorte Chemicals Corp. ("LaPorte") and further contributed by LaPorte to 3547728 Canada, Inc. 3547728 Canada, Inc. and OxyVinyls Canada were amalgamated with OxyVinyls Canada as the surviving entity.

The assets and liabilities contributed on behalf of the Oxy General Partner and the Oxy Limited Partner were recorded at OCC's book basis by the Partnership. The assets and liabilities contributed on behalf of the PolyOne Limited Partner were recorded at their fair value by the Partnership.

Under terms of the Partnership Agreement, net income is allocated among the partners pro rata based on their percentage ownership of the Partnership. Distributions to the partners and any additional cash contributions required by the Partnership are also based on the partners' percentage ownership of the Partnership.

The consolidated financial statements include the accounts of OxyVinyls and its wholly-owned subsidiary, LaPorte, as well as LaPorte's subsidiary, OxyVinyls Canada, whose functional currency is the U.S. dollar. All intercompany accounts and transactions have been eliminated.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

Risks and uncertainties -

The process of preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts, generally by immaterial amounts. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of OxyVinyls' financial position and results of operations.

The carrying value of OxyVinyls' property, plant and equipment ("PP&E") is based on the historical cost incurred to acquire the PP&E, net of accumulated depreciation and net of any impairment charges. OxyVinyls is required to perform impairment tests on its assets whenever events or changes in circumstances lead to a reduction in the estimated useful lives or estimated future cash flows that would indicate that the carrying amount may not be recoverable, or when management's plans change with respect to those assets. Under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, OxyVinyls must compare the undiscounted future cash flows of an asset to its carrying value.

Since OxyVinyls' major products are commodities, significant changes in the prices of chemical products could have a significant impact on OxyVinyls' results of operations for any particular period. OxyVinyls had one major customer, PolyOne, during the periods presented, which accounted for 13.0%, 14.8% and 20.5% of total sales for the years ended December 31, 2002, 2001 and 2000, respectively. PolyOne's trade receivable balance with OxyVinyls was approximately $24 million and $16 million at December 31, 2002 and 2001, respectively.

Substantially all key raw materials are supplied by related parties. (See Note 11.)

OxyVinyls receives all VCM for its Alberta, Canada facility from one supplier. The amounts of VCM supplied to this facility totaled approximately $62 million, $47 million and $67 million for the years ended December 31, 2002, 2001 and 2000, respectively. Starting January 1, 2001, all VCM supplied to the Alberta, Canada facility has been provided under the terms of an exchange agreement (see Exchanges below).

Revenue recognition -

Revenue from product sales is recognized after the product is shipped and title has passed to the customer. Prices are fixed at the time of shipment. Customer incentive programs provide for payments or credits to be made to customers based on the volume of product purchased over a defined period. Total customer incentive payments over a given period are estimated and recorded as a reduction to revenue ratably over the contract period. Such estimates are evaluated and revised as warranted.

Income taxes -

The Partnership is generally not subject to income taxes except for Canadian income taxes related to OxyVinyls Canada, certain U.S. state income taxes and U.S. federal income taxes associated with LaPorte.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Income taxes - (continued)

The Partnership follows SFAS No. 109, "Accounting for Income Taxes", pursuant to which the liability method is used in accounting for taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and regulations that will be in effect when the differences are expected to reverse.

Recent accounting pronouncements -

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS No. 141"), which requires the purchase method of accounting for business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 did not have an impact on the Partnership's financial position or results of operations.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangibles" ("SFAS No. 142"). The statement requires that goodwill recorded on acquisitions completed prior to July 1, 2001 be amortized through December 31, 2001. Goodwill amortization is precluded on acquisitions completed after June 30, 2001. Effective January 1, 2002, goodwill will no longer be amortized but will be tested for impairment annually. The adoption of SFAS No. 142, effective January 1, 2002, did not have an impact on the Partnership's financial position or results of operations.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." ("SFAS No. 143") which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. OxyVinyls makes capital renewal expenditures for its chemical plants on a continual basis while an asset is in operation. Thus, retirement obligations are provided for when a decision is made to dispose of a property or when operations have been curtailed on other than a temporary basis. Under SFAS No. 143, companies are required to recognize the fair value of a liability for an asset retirement obligation in the period in which the liability is incurred if there is a legal obligation to dismantle the asset and reclaim or remediate the property at the end of the useful life. OxyVinyls will adopt SFAS No. 143 effective January 1, 2003. The initial adoption is expected to result in an after-tax charge of approximately $3.4 million, which will be recorded as a cumulative effect of a change in accounting principles. The adoption is also expected to increase net property, plant and equipment by $3.6 million, increase asset retirement obligations by $7.2 million and decrease deferred foreign tax liabilities by $.4 million. In addition, OxyVinyls will record a pre-tax charge to income of approximately $.5 million per year to reflect the accretion of the liability and higher depreciation expense beginning in 2003.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). This Statement, which addresses the accounting for impairment or disposal of long-lived assets, supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the accounting and reporting provisions of APB 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". The adoption of SFAS No. 144, effective January 1, 2002, did not have an impact on the Partnership's financial position or results of operations.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Recent accounting pronouncements - (continued)

In January 2003, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." (FIN No. 45). FIN No. 45 requires a company to recognize a liability for the obligations it has undertaken in issuing a guarantee. This liability would be recorded at the inception of a guarantee and would be measured at fair value. The measurement provisions of this Interpretation apply prospectively to guarantees issued or modified after December 31, 2002. The disclosure provisions of this Interpretation apply to financial statements for periods ending after December 15, 2002. At December 31, 2002, the notional amount of OxyVinyls commitments for residual value guarantees relating to the LaPorte, Texas VCM plant operating lease (See Note 7, Leases) and other equipment operating leases was approximately $188 million. OxyVinyls will adopt the measurement provisions of this Interpretation in the first quarter of 2003. The adoption of this Interpretation is not expected to have a material effect on the financials statements when adopted.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." ("FIN No. 46"). FIN No. 46 requires a company to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the company does not have a majority of voting interests. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership. The provisions of this Interpretation apply at inception for any entity created after January 31, 2003. For an entity created before February 1, 2003, the provisions of this Interpretation must be applied at the beginning of the first interim or annual period beginning after June 15, 2003. OxyVinyls will adopt the provisions of FIN No. 46 in the third quarter of 2003 for existing entities that are within the scope of this Interpretation. This Interpretation also has disclosure requirements, some of which are required to be disclosed for financial statements issued after January 31, 2003. On a preliminary basis, OxyVinyls believes that FIN No. 46 will result in the consolidation of certain variable interest entities that are owners of plant and equipment OxyVinyls leases from them. The probable consolidation will affect the LaPorte, Texas VCM plant lease and railcars under the terms of a related lease agreement dated April 30, 1999 (collectively, the "LaPorte Lease"). (See Note 7, Leases.) If consolidation of the LaPorte Lease were to take place, OxyVinyls' financial condition would result in an increase in assets of approximately $132 million and liabilities of $180 million, with a pre-tax charge of approximately $48 million in the third quarter of 2003. OxyVinyls expects to record this change as a cumulative effect of a change in accounting principles. Annual expense for depreciation would increase by approximately $12 million. If OxyVinyls chose to terminate the leases prior to adoption, there would be no cumulative effect of change in accounting principles. Additionally, FIN No. 46 may require the consolidation of OxyMar (See Note 2, Equity Investment in OxyMar) in the third quarter of 2003. If OxyMar were to be consolidated at December 31, 2002, both assets and liabilities would increase by approximately $354 million. The consolidation of OxyMar would not change OxyVinyls' results of operations.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Recent accounting pronouncements - (continued)

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." ("SFAS No. 146"). SFAS No. 146 requires that a liability be recognized for exit and disposal costs only when the liability has been incurred and when it can be measured at fair value. The statement is effective for exit and disposal activities that are initiated after December 31, 2002. OxyVinyls will adopt SFAS No. 146 effective January 1, 2003 and it is not expected to have a material impact on its financials statements.

Foreign currency -

The functional currency applicable to OxyVinyls' Canadian operations is the U.S. dollar since cash flows are denominated principally in U.S. dollars. The effect of exchange-rate changes on transactions denominated in nonfunctional currencies generated a gain of $.1 million and $.2 million for the years ended December 31, 2002 and 2001, respectively and a loss of $4.0 million for the year ended December 31, 2000. These amounts are included in the expense category of the item that gave rise to the related transaction gain or loss.

Cash and cash equivalents -

Cash equivalents consist of highly liquid certificates of deposits and a restricted bank deposit (see Note 7) with initial maturities of three months or less. Cash equivalents totaled $3.5 million at both December 31, 2002 and 2001.

Interest income on deposits with unrelated parties was $.5 million, $.5 million and $1.1 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Cash overdrafts are reclassified to accounts payable and amounted to $9.5 million and $8.7 million as of December 31, 2002 and 2001, respectively.

Equity investment in OxyMar -

OxyMar, a partnership that is 50 percent owned by OxyVinyls, owns a VCM manufacturing facility at Ingleside, Texas which is operated on OxyMar's behalf by OCC pursuant to an operating agreement. OxyMar is not subject to federal or state income taxes as income is reportable directly by the individual partners. OxyVinyls accounts for its investment in OxyMar using the equity method of accounting for subsidiaries.

Effective November 29, 2000, U.S. VCM transferred 28.6 percent of the ownership of OxyMar to an indirect wholly-owned subsidiary of OCC. In connection with such transfer, OxyVinyls, Oxy VCM, LP and U.S. VCM entered into the Second Amended and Restated Partnership Agreement ("the OxyMar Partnership Agreement"), dated as of November 29, 2000, pertaining to the ownership and operation of OxyMar. Pursuant to the OxyMar Partnership Agreement, U.S. VCM and OxyVinyls retained 50/50 management control of OxyMar. The percentage ownership interest held by each partner of OxyMar is:

OxyVinyls	50%
Oxy VCM, LP	28.6%
U.S. VCM	21.4%

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Equity investment in OxyMar - (continued)

Under the terms of the OxyMar Partnership Agreement, net income is allocated among the partners pro rata based on their percentage interest in the results of OxyMar. Distributions to the partners are also based on the partners' percentage interest in OxyMar. Subject to certain qualifications described below, the OxyMar Partnership Agreement requires cash calls from each partner when the quarterly cash flow forecast approved by the OxyMar managing committee shows a deficit in any month. Each partner is required to contribute a pro rata portion, based on its respective percentage interests, of the deficit in the form of an equity contribution or subordinated loan. The foregoing obligations are qualified to the extent that during the period from November 29, 2000 until April 30, 2004 (the "Restricted Period") OxyMar may not require any partner to make any contribution or loan for any purpose and the funding requirements of OxyMar shall be met by loans arranged or provided by OPC. To implement such loans during the Restricted Period, effective as of December 27, 2000, OxyMar entered into a $100 million Cash Management and Revolving Credit Facility Agreement with OPC (the "OPC Revolver"). Effective February 28, 2001, the credit facility limit under the OPC Revolver was increased to $200 million.

Pursuant to the terms of the OxyMar Partnership Agreement, upon the expiration of the Restricted Period, U.S. VCM may elect to require OCC (or any affiliate designated by OCC) to purchase U.S. VCM's remaining 21.4 percent equity interest in OxyMar and in connection with such transfer require OPC to assume Marubeni's guarantee of OxyMar's outstanding indebtedness. For purposes of such transfer, the value of U.S. VCM's remaining interest in OxyMar is calculated based upon an agreed deemed value of the OxyMar partnership less partnership indebtedness, subject to certain adjustments for accrued taxes, interest and available cash.

At December 31, 2002 and 2001, the historical underlying equity in net assets of OxyMar exceeded the Partnership's investment in OxyMar by $6.4 million and $7.0 million, respectively. The deficiency is being amortized on a straight-line basis into income over 25 years. Amortization amounted to $.6 million, $.5 million and $.5 million for the years ended December 31, 2002, 2001 and 2000, respectively and is included in equity in (losses)/earnings of unconsolidated subsidiary on the consolidated statements of operations. The following table presents summarized financial information of OxyMar (in thousands):

	For the Year Ended December 31, 2002	For the Year Ended December 31, 2001	For the Year Ended December 31, 2000
Net sales	$ 422,893	$ 370,432	$ 431,555
Costs and expenses	389,031	408,212	439,836
Net income (loss)	$ 33,862	$ (37,780)	$ (8,281)
Current assets	$ 57,343	$ 30,302	$ 68,423
Noncurrent assets	$ 320,635	$ 338,115	$ 346,642
Current liabilities	$ 60,497	$ 35,660	$ 36,255
Noncurrent liabilities	$ 364,240	$ 413,378	$ 421,651
Partners' capital	$ (46,759)	$ (80,621)	$ (42,841)

OPC guarantees 50 percent of OxyMar's $165 million private placement bonds due 2016 and 100 percent of a $220 million revolving line of credit which matures in 2005, under which $105 million was outstanding at December 31, 2002.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Equity investment in OxyMar - (continued)

See Note 11 regarding OxyVinyls' purchase commitment from OxyMar. Unrealized profits on inventory purchased from OxyMar are deferred by OxyVinyls based on ownership percentage and are recognized upon the ultimate sale to an unaffiliated customer.

Other assets, net -

Other assets, net also includes certain tangible assets and deferred charges that are amortized over the estimated periods to be benefited (3 - 10 years). At December 31, 2001, other assets, net also included a net receivable of $2.9 million that was settled during 2002.

Major maintenance expenditures -

OxyVinyls uses the accrue-in-advance method to account for major maintenance turnaround expenditures. Under this method, an estimate is made of the costs expected to be incurred in connection with the next planned periodic maintenance shutdown. That estimate is then accrued on a straight-line basis over the period of time until the next planned major maintenance shutdown occurs. The liability for major maintenance turnaround included in accrued liabilities was $10.8 million and $12.4 million as of December 31, 2002 and 2001, respectively.

Exchanges -

Finished product exchange transactions, which involve homogeneous commodities held for sale in the ordinary course in the same line of business and do not involve the payment or receipt of cash, are not accounted for as purchases and sales. Any resulting volumetric exchange balances are accounted for as inventory in accordance with the normal inventory valuation policy.

Environmental costs -

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Reserves for estimated costs that relate to existing conditions caused by past operations and that do not contribute to current or future revenue generation are recorded when environmental remedial efforts are probable and the costs can be reasonably estimated. In determining the reserves, OxyVinyls uses the most current information available, including similar past experiences, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements. The environmental reserves are based on management's estimate of the most likely cost to be incurred and are reviewed periodically and adjusted as additional or new information becomes available. Recoveries and reimbursements are recorded as income when receipt is probable. Environmental reserves are recorded on a discounted basis only when a reserve is initially established and the aggregate amount of the estimated costs for a specific site and the timing of cash payments are reliably determinable. The reserve methodology for a specific site would not be modified once it has been established.

Pursuant to the asset contribution agreements of the Partnership, the contributors (OCC and PolyOne) have an obligation to indemnify OxyVinyls for health, safety and environmental claims that relate to pre-May 1, 1999 activities and that existed as of April 30, 1999, or arise within ten years of that date, except to the extent that OxyVinyls exacerbated or accelerated the claim.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Environmental costs - (continued)

As of December 31, 2002, management believes no environmental reserve is required.

Research and development costs -

Research and development costs, which are charged to selling, general and administrative and other operating expenses as incurred, were $4.0 million, $4.5 million and $6.9 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Supplemental cash flow information -

Cash payments for income taxes totaled $.1 million, $.6 million and $7.4 million during the years ended December 31, 2002, 2001 and 2000, respectively. Net interest paid totaled $.3 million, $2.4 million and $4.1 million during the years ended December 31, 2002, 2001 and 2000, respectively.

During the years ended December 31, 2002, 2001 and 2000, OxyVinyls sold trade receivables to an affiliate, Occidental Receivables Corp ("ORC") (formerly Occidental Receivables, Inc.), in noncash transactions. (See Note 3.)

Fair value of financial instruments -

OxyVinyls values financial instruments as required by SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of those instruments. OxyVinyls estimates the fair value of its long-term debt based on the quoted market prices for the same or similar issues or on the yields offered to OxyVinyls for debt of similar rating and similar remaining maturities. The estimated fair value of OxyVinyls' long-term debt was approximately $10.4 million and $9.9 million at December 31, 2002 and 2001, respectively, compared with a carrying value of $10.0 million at both December 31, 2002 and 2001. (See Note 6.) The carrying value of all other financial instruments approximates fair value.

(3) RECEIVABLES -

During the years ended December 31, 2002 and 2001, OxyVinyls sold, with limited recourse for credit risk, to ORC certain trade receivables under a revolving sale program in connection with the ultimate sale for cash of an undivided ownership interest in such receivables by ORC. OxyVinyls has retained the collection responsibility with respect to the receivables sold. An interest in new receivables is sold monthly in noncash transactions representing the net difference between newly created receivables and collections made from customers. Receivables must meet certain criteria to qualify for the program. OxyVinyls provides for allowances for any doubtful receivables based on its periodic evaluation of such receivables. The net receivables balance sold as of December 31, 2002 and 2001, was $129 million and $139 million, respectively.

(4) INVENTORIES -

Inventories are valued at the lower of cost or market. The last-in, first-out ("LIFO") method was used to determine the cost of $76 million and $72 million of inventories at December 31, 2002 and 2001, respectively. The remaining inventories are accounted for using the first-in, first-out ("FIFO") and weighted-average-cost methods. Inventories consisted of the following (in thousands):

	2002	2001
Raw materials	$ 21,767	$ 21,399
Materials and supplies	18,236	20,137
Finished goods	72,149	64,697
	112,152	106,233
LIFO and lower of cost or market reserve	(2,908)	(1,066)
Total inventories	$ 109,244	$ 105,167

During 2001, certain inventory quantities carried at LIFO were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2001 purchases, the effect of which decreased cost of sales by approximately $1.0 million. There were no liquidations of LIFO layers during 2002.

(5) PROPERTY, PLANT AND EQUIPMENT -

Property additions and major renewals and improvements are capitalized at cost. Interest costs incurred in connection with major capital expenditures are capitalized and amortized over the lives of the related assets. OxyVinyls capitalized $.7 million and $2.1 million of interest during the years ended December 31, 2002 and 2001, respectively.

The estimated useful lives of OxyVinyls' assets, which range from 3 years to 50 years, are used to compute depreciation expense and are also used for impairment tests. The estimated useful lives used for the facilities were based on the assumption that OxyVinyls would provide an appropriate level of annual capital expenditures while the plants are still in operation. Without these continued capital expenditures, the useful lives of these plants could significantly decrease. Other factors which could change the estimated useful lives of OxyVinyls' plants include higher or lower product prices, feedstock costs, energy prices, environmental regulations, competition and technological changes.

OxyVinyls is required to perform impairment tests on its chemical assets whenever events or changes in circumstances lead to a reduction in the estimated useful lives or estimated future cash flows that would indicate that its carrying amount may not be recoverable, or when management's plans change with respect to those assets. Under the provisions of SFAS No. 144, OxyVinyls must compare the undiscounted future cash flows of an asset to its carrying value. The key factors which could significantly affect future cash flows are future product prices, feedstock costs, energy costs and remaining estimated useful life.

(5) PROPERTY, PLANT AND EQUIPMENT - (continued)

Due to a temporary decrease in demand for some of its products, OxyVinyls temporarily idled a chlor-alkali plant in December 2001. This facility will remain idle until market conditions improve. Management expects that this plant will become operational in the future. The net book value of this plant was $122.5 million at December 31, 2002. This facility was tested for impairment at the time it was temporarily idled and, based on the results, no impairment was deemed necessary for this facility. OxyVinyls continues to depreciate this facility based on its remaining estimated useful life. (See Note 12.)

OxyVinyls' plants are depreciated using either the unit-of-production or straight-line method based upon the estimated useful life of the facilities.

Property, plant and equipment consisted of the following (in thousands):

	2002	2001
Land and land improvements	$ 32,707	$ 32,354
Buildings	54,356	55,618
Machinery and equipment	1,273,019	1,259,560
Construction in progress	39,191	39,728
	1,399,273	1,387,260
Accumulated depreciation	(472,730)	(419,785)
Property, plant and equipment, net	$ 926,543	$ 967,475

(6) LONG-TERM DEBT -

Long-term debt consists of notes payable to OCC of $10.0 million at each of the years ended December 31, 2002 and 2001. The interest rate is 4.2% and the note is due in 2006.

The Canadian bank loan, when drawn upon, is payable in U.S. dollars under the terms of the Amended Credit Agreement entered into by OxyVinyls in December 1999. OxyVinyls Canada may borrow up to $10 million U.S. dollars under the terms of the Amended Credit Agreement, which is guaranteed by OPC. The bank loan was not drawn upon at December 31, 2002.

Interest expense related to long-term external debt was $.3 million, $2.2 million and $4.1 million for the years ended December 31, 2002, 2001 and 2000, respectively.

(7) COMMITMENTS AND CONTINGENCIES -

Leases -

At December 31, 2002, future net minimum rental commitments under noncancelable operating leases with terms in excess of one year are as follows (in thousands):

2003	$ 24,532
2004	21,359
2005	18,443
2006	14,652
2007	12,540
Thereafter	45,536
	$ 137,062

OxyVinyls leases certain VCM manufacturing facilities in LaPorte, Texas, and railcars under the terms of various related agreements dated April 30, 1999 (collectively, the "LaPorte Lease"). (See Note 2, Recent accounting pronouncements, FIN No. 46.) The initial lease term extends through April 20, 2004, and has a provision for annual renewals for an additional five years. Upon termination of the LaPorte Lease, OxyVinyls may purchase the assets based upon their estimated fair values. If the assets are not purchased at the end of the lease-term, OxyVinyls would be obligated to pay any deficiency between the fair value of the assets and the guaranteed residual of approximately $151 million; however, OxyVinyls does not expect to make payments under this provision. Total estimated future rental commitments of $6.4 million under the LaPorte Lease are included in the operating lease commitments above. Actual rent payments under the LaPorte Lease are calculated using variable interest rates. OxyVinyls has restricted bank deposits, recorded in cash and cash equivalents on the consolidated balance sheets, associated with the LaPorte Lease of $3.5 million at each of December 31, 2002 and 2001. OxyVinyls earns interest on these deposits which will be returned to OxyVinyls upon termination of the LaPorte Lease. All obligations under the LaPorte Lease are guaranteed by OPC.

Rent expense was approximately $25.9 million, $26.6 million and $29.9 million for the years ended December 31, 2002, 2001 and 2000. Rent expense is included in cost of sales in the consolidated statements of operations.

Other -

OxyVinyls has entered into an agreement providing for the following future payments (in thousands) to purchase brine, a raw material utilized in chlor-alkali production. At December 31, 2002, the net present value of the fixed and determinable portion of the obligation under this agreement was used to collateralize financing of the brine supplier.

2003	$ 679
2004	606
2005	540
2006	480
2007	425
Thereafter	1,703
	$ 4,433

(7) COMMITMENTS AND CONTINGENCIES - (continued)

OxyVinyls has certain other commitments under contracts to purchase electrical power and raw materials and other obligations, all in the ordinary course of business and at market prices.

The Partnership also becomes involved in certain legal proceedings in the normal course of business. Management believes that the outcome of such matters will not significantly affect the Partnership's consolidated financial position or results of operations.

Also, see Notes 2 and 9 related to income taxes and Notes 10 and 11 regarding related parties.

(8) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS -

OxyVinyls participates in various defined contribution retirement plans sponsored by OPC for its salaried, domestic union and nonunion hourly, and certain foreign national employees that provide for periodic contributions by OxyVinyls based on plan-specific criteria, such as base pay, age level, and/or employee contributions. OxyVinyls expensed approximately $8.4 million, $9.2 million and $8.2 million, for the years ended December 31, 2002, 2001 and 2000, respectively, under the provisions of these plans.

OxyVinyls provides medical and dental benefits and life insurance coverage for certain active, retired and disabled employees and their eligible dependents. The benefits generally are funded by OxyVinyls as they are paid during the year. The cost of providing these benefits is based on claims filed and insurance premiums paid for the period. The total benefit costs, including the postretirement costs, were approximately $9.4 million, $7.9 million and $7.2 million in 2002, 2001 and 2000, respectively.

The following table sets forth the components of the net periodic benefit costs from OxyVinyls' postretirement benefit plans (in thousands):

	For the Year Ended December 31, 2002	For the Year Ended December 31, 2001	For the Year Ended December 31, 2000
Service cost--benefits earned during the period	$ 764	$ 621	$ 573
Interest cost on benefit obligation	1,479	1,187	1,057
Recognized actuarial loss	211	-	-
Net periodic benefit cost	$ 2,454	$ 1,808	$ 1,630

OxyVinyls' postretirement benefit plans are accrued based on various assumptions and discount rates, as described below. The actuarial assumptions used could change in the near term as a result of changes in expected future trends and other factors which, depending on the nature of the changes, could cause increases or decreases in the liabilities accrued.

(8) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS - (continued)

The following table sets forth the reconciliation of the beginning and ending balances of the benefit obligation for OxyVinyls' postretirement benefit plans (in thousands):

Changes in benefit obligation:	2002	2001
Benefit obligation - beginning of year	$ 18,687	$ 15,254
Service cost - benefits earned during the period	764	621
Interest cost on projected benefit obligation	1,479	1,187
Actuarial loss	4,132	1,814
Benefits paid	(564)	(189)
Benefit obligation - end of year	$ 24,498	$ 18,687

The postretirement benefit obligations were determined by application of the terms of medical and dental benefits and life insurance coverage, including the effect of established maximums on covered costs, together with relevant actuarial assumptions and health care cost trend rates projected at a Consumer Price Index ("CPI") increase of 3 percent as of December 31, 2002 and 2001. Participants pay for all medical cost increases in excess of increases in the CPI. Consequently, increases in the assumed healthcare cost trend rates beyond the CPI increase would have no impact on the postretirement benefit obligation at December 31, 2002 and 2001. The discount rate used in determining the benefit obligation was 6.65 percent, 7.0 percent, and 7.75 percent as of December 31, 2002, 2001 and 2000, respectively.

Pursuant to the asset contribution agreements of the Partnership, the contributors (OCC and PolyOne) retained liability for, and have an obligation to indemnify the Partnership with respect to, such contributors' employee benefit and welfare plans and programs (including existing retirees and disabled) and any claims by or on behalf of employees of OxyVinyls that are attributable to their employment with the contributor prior to May 1, 1999. Obligations related to postretirement benefits attributable to active employees at April 30, 1999, were assumed by OxyVinyls.

The following table sets forth the funded status and the amount recognized in OxyVinyls' consolidated balance sheets for postretirement benefit obligations at December 31, 2002 and 2001 (in thousands):

	2002	2001
Funded status	$ (24,498)	$ (18,687)
Unrecognized net loss	6,106	2,185
Postretirement benefit obligations	$ (18,392)	$ (16,502)

(9) INCOME TAXES -

Deferred foreign income taxes reflect the future tax consequences of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts. At December 31, 2002 and 2001, OxyVinyls had deferred foreign income tax liabilities of $2.8 million and $1.1 million, respectively, which are included in deferred credits and other liabilities on the consolidated balance sheets. The temporary differences resulting in deferred foreign income tax liabilities are primarily related to property, plant and equipment.

(9) INCOME TAXES - (continued)

The current and deferred (benefit)/provision for income tax was $2.1 million and $1.6 million, respectively, for the year ended December 31, 2002; $(1.3) million and $(.5) million, respectively, for the year ended December 31, 2001 and $(1.4) million and $1.3 million, respectively, for the year ended December 31, 2000. Additionally, the Partnership paid certain minimum state and federal taxes of approximately $.7 million for the year ended December 31, 2000.

OxyVinyls is subject to audit by taxing authorities in various tax jurisdictions. Management believes that any required adjustments to OxyVinyls' tax liabilities will not have a material adverse impact on its financial position or results of operations.

(10) CASH MANAGEMENT AND CREDIT AND DEPOSIT FACILITIES AGREEMENT WITH OPC -

OxyVinyls participates in OPC's centralized cash management system for its domestic operations. OxyVinyls maintains a concentration account to collect cash receipts and to fund disbursements. OPC funds any negative cash balances and collects any excess cash balances on a daily basis in the concentration account under the terms of a Cash Management and Credit and Deposit Facilities Agreement between OPC and OxyVinyls (the "Agreement").

Under terms of the Agreement, OPC has committed to loan OxyVinyls, on a revolving basis, up to $104 million as of December 31, 2002.

PolyOne has guaranteed $42.3 million of the OxyVinyls' loans payable to OPC. This guarantee terminates when OxyVinyls attains a defined amount of cumulative earnings before income taxes, depreciation and amortization.

OPC loans to OxyVinyls cannot decrease below a minimum required balance of $42.3 million before the termination of the PolyOne guarantee. The loan payable to OPC was $42.3 million at each of December 31, 2002 and 2001. In order to maintain the loan at the minimum required balance, any excess cash collected by OPC is held in the form of interest bearing deposits under terms of the Agreement. These deposits are considered loans receivable from OPC. As of December 31, 2002 and 2001, the balance of loans receivable from OPC was $79.2 million and $59.8 million, respectively. The OxyVinyls' loans payable and receivable to/from OPC, including interest, has been combined and recorded as loans receivable from OPC, net in the accompanying consolidated balance sheets.

Loans payable to OPC accrue interest at the reported one-month London Interbank Offered Rate ("LIBOR") plus a calculated variable margin. Loans receivable from OPC accrue interest at the reported one-month LIBOR. There was minimal net interest expense (income) for the year ended December 31, 2002. Net interest expense (income) under the Agreement totaled $1.5 million and $(.1) million for the years ended December 31, 2001 and 2000, respectively. Fees payable to OPC under the Agreement totaled $.3 million, $.2 million and $.3 million for the years ended December 31, 2002, 2001 and 2000, respectively. These fees are included in other operating expenses.

The Agreement may be terminated by either OxyVinyls or OPC after the termination of the PolyOne guarantee, at which date any outstanding loans as well as any accrued interest and fees payable become due.

(10) CASH MANAGEMENT AND CREDIT AND DEPOSIT FACILITIES AGREEMENT WITH OPC - (continued)

On June 1, 2002, OPC provided an additional loan of $13.7 million under an amendment to the Agreement with repayment required upon the earliest of the Deer Park, Texas chlor-alkali plant restart, termination of the credit facility or the date of December 31, 2006. This loan bears interest at the same rate as the OPC credit facility. At December 31, 2002, the outstanding loan balance was $13.7 million.

(11) RELATED PARTY TRANSACTIONS -

OxyVinyls sells PVC to PolyOne under the terms of a sales agreement that expires on December 31, 2013. The agreement requires PolyOne and its majority affiliates' to purchase their annual PVC requirements in North America from OxyVinyls in excess of 290 million pounds. On the first 880 million pounds of PVC supplied in any calendar year, PolyOne will pay a price which is based upon cost and market considerations. PolyOne will purchase all volumes over 880 million pounds in any calendar year at a competitive market price.

OxyVinyls sells VCM to OCC and PolyOne under the terms of separate sales agreements that expire on December 31, 2013. The agreements require that OCC and PolyOne purchase at market price all of their VCM requirements for production of PVC in North America from OxyVinyls. Under the terms of the agreements, PolyOne and OCC receive an integration credit on the first 210 million and 215 million pounds purchased in any year, respectively, to compensate for surrendered purchasing power on major feedstocks.

OxyVinyls' sales of VCM to OCC under the terms of these agreements were approximately $31.3 million, $27.5 million and $45.2 million for the years ended December 31, 2002, 2001 and 2000, respectively. OxyVinyls' sales of PVC and VCM to PolyOne under the terms of these agreements were approximately $179 million, $184 million and $297 million for the years ended December 31, 2002, 2001 and 2000, respectively.

OxyVinyls sells chlor-alkali and other specialty products to OCC under the terms of a sales agreement that expires on December 31, 2013. This agreement requires OCC to purchase at market price all chlor-alkali products produced by OxyVinyls that are not required for its internal uses. This agreement also requires OCC to purchase all specialty products produced by OxyVinyls at full manufacturing cost. This agreement also requires OxyVinyls to pay OCC a fee for marketing excess chlor-alkali products to third parties. OxyVinyls sold $84.0 million, $218.2 million and $181.7 million of chlor-alkali and specialty products to OCC during the years ended December 31, 2002, 2001 and 2000, respectively. OxyVinyls paid $13.3 million, $19.9 million and $22.0 million to OCC for the marketing fee during the years ended December 31, 2002, 2001 and 2000, respectively.

OxyVinyls purchases ethylene from Equistar Chemicals LP ("Equistar"), an affiliate of an equity investee of OPC, under the terms of two agreements. The first agreement requires that OxyVinyls purchase ethylene at market price, 250 million pounds during the year 2000 and 200 million pounds in each of the years 2001 through 2003 for the LaPorte VCM facility. This agreement expires December 31, 2003. Under the terms of the second agreement, OxyVinyls purchases ethylene requirements for the Deer Park VCM facility at Equistar's weighted average selling price, as defined in the agreement. This agreement expires on December 31, 2013. OxyVinyls purchased $157.0 million, $193.1 million and $170.5 million of ethylene from Equistar under the terms of these agreements during the years ended December 31, 2002, 2001 and 2000, respectively.

(11) RELATED PARTY TRANSACTIONS - (continued)

OxyVinyls purchases chlorine from Sunbelt Chlor Alkali Partnership, an equity investee of PolyOne ("Sunbelt"), under the terms of an agreement that expires on December 31, 2094. This agreement requires OxyVinyls to purchase at market price, less a discount, all chlorine produced by Sunbelt at its chlorine manufacturing process facility in McIntosh, Alabama, up to a maximum of 250 thousand tons per year. OxyVinyls purchased $30.5 million, $9.8 million and $38.7 million of chlorine from Sunbelt under the terms of this agreement during the years ended December 31, 2002, 2001 and 2000, respectively.

OxyVinyls purchases VCM from OxyMar under the terms of a VCM purchase agreement that runs until such time as OPC, either directly or through its affiliates, ceases to own an equity interest in OxyMar. The agreement requires OxyVinyls to purchase each year at market prices a minimum of 700 million of the first 1.1 billion pounds of VCM produced and 530 million pounds of the next 1 billion pounds produced by OxyMar. Total purchases under this agreement were $308.9 million, $290.7 million and $308.9 million for the years ended December 31, 2002, 2001 and 2000, respectively.

OxyVinyls incurs costs charged by OCC and PolyOne under the terms of various service and shared facilities agreements. These agreements are in effect generally so long as services continue to be provided between parties and/or facilities continue to be shared. Under the provisions of these agreements, OxyVinyls receives from and makes payments to PolyOne and OCC for shared facilities at Louisville, Kentucky; Pedricktown, New Jersey and Pasadena, Texas. In some cases the agreements contain renewal options at negotiated prices. The net total of these costs were approximately $1.0 million, $.7 million and $.5 million for the years ended December 31, 2002, 2001 and 2000, respectively. Additionally, OxyVinyls incurred the following costs payable to OCC and PolyOne (in millions).

	OCC	PolyOne
Administrative and other support services		
For the year ended December 31, 2002	$ 24.2	$ 2.3
For the year ended December 31, 2001	25.6	2.9
For the year ended December 31, 2000	12.2	7.8
Net railcar rent expense (income)		
For the year ended December 31, 2002	$ 3.7	$ -
For the year ended December 31, 2001	$ 5.6	$ -
For the year ended December 31, 2000	4.8	(.2)

OxyVinyls had a net receivable from OCC of $2.4 million and $16.5 million as of December 31, 2002 and 2001, respectively.

OxyVinyls had a net payable to PolyOne of $.3 million and $1.8 million as of December 31, 2002 and 2001, respectively. The amounts due to PolyOne do not include trade receivables of $17 million and $16 million payable to ORC by PolyOne as of December 31, 2002 and 2001. (See Note 2 and Note 3.)

(11) RELATED PARTY TRANSACTIONS - (continued)

The Partnership has agreed (in principle) with PolyOne that, in return for the payment by PolyOne in the amount of approximately $2.0 million (approximately $.1 million paid to OxyVinyls and approximately $1.9 million paid to OCC), the parties will settle a variety of claims including, but not limited to, the claims by the Partnership against PolyOne for cleaning the by-product storage tank at the LaPorte, Texas VCM facility and a variety of accounting claims arising in the ordinary course of business among PolyOne, the Partnership and OCC.

(12) TEMPORARY IDLING OF DEER PARK, TEXAS FACILITY -

In December 2001, OxyVinyls (of which PolyOne owns 24 percent) announced the temporary idling of its Deer Park, Texas chlor-alkali plant due to low industry capacity utilization and low product market selling prices. As of December 31, 2001, OxyVinyls had accrued $10.7 million for future employee severance and $3.1 million for liabilities associated with temporary idling of the Deer Park plant. In 2002, OxyVinyls recognized an additional $2.2 million of expense associated with the temporary plant idling plus an additional expense of $17.0 million in the third quarter related to the permanent closing of specific production assets included in the idled plant. The permanent closure costs included $14.5 million for the impairment of the fixed assets as well as $2.5 million for decommissioning costs. As of December 31, 2002, OxyVinyls had a remaining accrual of $4.7 million for future employee severance liabilities and decommissioning costs. The plant had a net property carrying value by OxyVinyls at the end of 2002 of approximately $122.5 million, which is anticipated to be realized through future operations upon the restart of the plant. (See Note 5.) Although chlorine demand in all major market segments increased steadily in 2002, particularly VCM, domestic demand for co-product caustic soda was flat year-over-year and exports from the U.S. declined. OxyVinyls will maintain the Deer Park chlor-alkali plant in a standby mode pending further strengthening in the overall economic conditions and improved demand for caustic soda.

(13) VALUATION AND QUALIFYING ACCOUNTS -

Severance of $10.7 million related to the Deer Park Facility was recorded in 2001. These costs were recorded in accrued liabilities and the amount charged to expense is recorded in selling general and administrative and other operating expenses. (See Note 12.)

The following table presents the activity of certain valuation and qualifying accounts for the years ended December 31, 2002, 2001 and 2000 (in millions).

	Balance at Beginning of Period	Charged to Expense	Deductions	Adjustment	Balance at End of Period
For the year ended December 31, 2002					
Allowance for doubtful accounts	$ -	$ -	$ (3.7)	$ 3.7(d)	$ -
Allowance for long-term doubtful accounts	$ 2.2	$ -	$ (2.2)	$ -	$ -
Severance and other obligations	$ 10.7	$ -	$ (8.5)(a)	$ -	$ 2.2
For the year ended December 31, 2001					
Allowance for doubtful accounts	$ -	$ 3.2	$ (1.1)	$ (2.1)(d)	$ -
Allowance for long-term doubtful accounts	$ 4.5	$ -	$ -	$ (2.3)(c)	$ 2.2
Severance and other obligations	$ -	$ 10.7	$ -	$ -	$ 10.7
For the year ended December 31, 2000					
Allowance for doubtful accounts	$ -	$ 1.3	$ (.8)	$ (.5)(d)	$ -
Allowance for long-term doubtful accounts	$ -	$ 4.5	$ -	$ -	$ 4.5
Severance and other obligations	$ 3.2	$ -	$ (2.6)(a)	$ (.6)(b)	$ -

(a) Payments under the Partnership's plan for termination and relocation of certain employees.
(b) Adjustment to cost of acquisition.
(c) Adjusted to income.
(d) Allowance balance transferred to ORC, net.

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EXHIBIT 21

POLYONE CORPORATION
SUBSIDIARIES

Name	Jurisdiction of Incorporation
1997 Chlor-Alkali Venture Inc.	Alabama
Altona Properties Pty Ltd. (1)	Australia
Auseon Limited	Australia
Welvic Australia Pty Ltd. (1)	Australia
PolyOne Wilflex Australasis, PTY Ltd.	Australia
PolyOne Canada, Inc.	Canada
LP Holdings, Inc.	Canada
Geon Polimeros Andinos S.A. (2)	Columbia (6)
Resintech, S.A.	Costa Rica
1999 General Compounding Partnership Inc.	Delaware (6)
1999 Limited Compounding Partnership Inc.	Delaware
1999 PVC Partner Inc.	Delaware (6)
Lincoln & Southern Railroad Company	Delaware
Oxy Vinyls, LP (3)	Delaware (6)
PVC Powder Blends, LP (4)	Delaware (6)
Sunbelt Chlor-Alkali Partnership (2)	Delaware (6)
Acrol Holdings Limited	England
PolyOne Engineering Vinyls UK, Ltd.	England
PolyOne Wilflex Europe, Ltd.	England
Regalite Plastics Corporation	Massachusetts
O'Sullivan Plastics Corporation	Nevada
Geon Development Inc.	Ohio
Polymer Diagnostics, Inc.	Ohio
SPC Geon PTE LTD. (2)	Singapore
Shawnee Holdings, Inc.	Virginia
PolyOne Engineered Films, Inc.	Virginia
Burton Rubber Company	Ohio
Burton Rubber Compounding, LP	Delaware (6)
PolyOne Elastomers Canada, Inc.	Ontario
M.A. Hanna Plastic Group, Inc.	Michigan
Compounding Technology, Euro S.A.	France
PolyOne Singapore, Ltd.	Singapore
DH Compounding Company (2)	Delaware (6)
Hanna France SARL	France
Hanna PAR Corporation	Delaware
Hollinger Development Company	Nevada
PolyOne Compuestos, S.A. de C.V.	Mexico
PolyOne - Suzhou, China	China
PolyOne Hungary, Ltd.	Hungary
PolyOne Shanghai, China	China
M.A. Hanna Asia Holding Company	Delaware
M.A. Hanna Export Services Company	Barbados
M.A. Hanna International Financial Services Company	Ireland
M.A. Hanna de Mexico, S.A. de C.V.	Mexico
MAH Plastics Company	Delaware

Name	Jurisdiction of Incorporation
PolyOne Funding Corporation	Delaware
PolyOne E.C. De Mexico, S.A. de C.V.	Mexico
MAHRC Servicios S.A. De C.V.	Mexico
PolyOne Werk Melos, GmbH	Germany
PolyOne Spain, S.A.	Spain
TRANSCOLOR, S.A.	Spain
Star Color Co., Ltd.	Thailand
Tekno Polimer Group (5)	Turkey
PolyOne Th. Bergmann, GmbH	Germany
UBE-Hanna Compounding GmbH (2)	Germany
PolyOne Compounds & Colors U.K., Ltd.	England
PolyOne Norway A.S.	Norway
PolyOne France, S.A.	France
PolyOne Sweden, A.B.	Sweden
RA Products, Inc.	Michigan
Conexus, Inc.	Nevada
PolyOne Distribution Canada, Inc.	Canada
PolyOne Colors and Additives Germany, GmbH	Germany
Hanna Deutschland, GmbH	Germany
PolyOne Werk Krause, GmbH	Germany
L.E. Carpenter & Company	Delaware
PolyOne Distribution De Mexico S.A., de C.V.	Mexico
M.A. Hanna UK, Ltd.	England

Notes:

(1) Owned 37.4% by the Company

(2) Owned 50% by the Company

(3) Owned 24% by the Company

(4) Owned 90% by the Company

(5) Owned 87% by the Company

(6) Partnership

The Company has other subsidiaries not listed above which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2002.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of PolyOne Corporation of our report dated January 28, 2003, included in the 2002 Annual Report to the Shareholders of PolyOne Corporation.

Our audit also included the financial statement schedule of PolyOne Corporation listed in Item 15(d). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-47796) pertaining to Post Effective Amendment No. 1 on Form S-4, and in the Registration Statement (Form S-8 No. 333-48002) pertaining to the PolyOne Corporation 2000 Stock Incentive Plan of our report dated January 28, 2003, with respect to the consolidated financial statements of PolyOne Corporation incorporated herein by reference, and of our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of PolyOne Corporation.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
March 25, 2003

Exhibit 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the registration statements (Nos. 333-47796 and 333-48002) of PolyOne Corporation of our report dated January 27, 2003, with respect to the consolidated balance sheet of Oxy Vinyls, LP as of December 31, 2002, and the related consolidated statements of operations, changes in partners' capital, and cash flows for the year then ended, which report appears in the December 31, 2002 annual report on Form 10-K of PolyOne Corporation.

/s/ KPMG LLP

Dallas, Texas
March 26, 2003

EXHIBIT 23.3

INFORMATION REGARDING CONSENT OF ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933, as amended (the "Securities Act"), provides that if part of a registration statement at the time it becomes effective contains an untrue statement of a material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may assert a claim against, among others, an accountant who has consented to be named as having certified any part of the registration statement or as having prepared any report for use in connection with the registration statement.

In June of 2002, Arthur Andersen LLP ("Andersen") was convicted of obstructing justice, which is a felony offense. The SEC prohibits firms convicted of a felony from auditing public companies. Andersen is thus unable to consent to the use of its audit report in the Company's previously filed Registration Statement (Form S-8 No. 333-47796) pertaining to Post Effective Amendment No. 1 on Form S-4, and previously filed Registration Statement (Form S-8 No. 333-48002) pertaining to the PolyOne Corporation 2002 Stock Incentive Plan with respect to Oxy Vinyls, LP's consolidated financial statements as of December 31, 2001 and for the two years in the period then ended. Under these circumstances, Rule 437a under the Securities Act permits PolyOne Corporation to file this Annual Report on Form 10-K, which is incorporated by reference into the Registration Statements, without a written consent from Andersen. As a result, with respect to transactions in PolyOne Corporation securities pursuant to the Registration Statements that occur subsequent to the date this Annual Report on Form 10-K is filed with the Securities and Exchange Commission, Andersen will not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Andersen under Section 11(a) of the Securities Act.

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of PolyOne Corporation (the "Company") for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas A. Waltermire, Chairman of the Board, President and Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Thomas A. Waltermire

Thomas A. Waltermire
Chairman of the Board, President and Chief Executive Officer
March 25, 2003

A signed original of this written statement required by Section 906 has been provided to PolyOne Corporation and will be retained by PolyOne Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of PolyOne Corporation (the "Company") for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. David Wilson, Vice President and Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ W. David Wilson

W. David Wilson
Vice President and Chief Financial Officer
March 25, 2003

A signed original of this written statement required by Section 906 has been provided to PolyOne Corporation and will be retained by PolyOne Corporation and furnished to the Securities and Exchange Commission or its staff upon request.