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Market Outlook

Our industry is prone to fluctuations in demand over the business cycle. Production levels in our key markets for the past three years, along with Dana's outlook for 2004, are shown below.

	Production in Units			
	2001	2002	2003	Dana's Outlook 2004
Light vehicle (in millions):				
North America	15.5	16.4	15.9	16.2
Europe	20.5	20.8	21.0	21.5
Asia Pacific	16.0	18.1	18.5	19.6
South America	2.4	1.9	1.9	2.3
Commercial Vehicle (in thousands):				
North America Class 5-7	176	189	195	211
Class 8	146	181	176	245

North American light duty production levels have been relatively stable the past few years. A significant development in this market since 2001 has been the increased use of incentives by our customers to stimulate and maintain demand levels. Reasonable levels of vehicle inventories at the end of 2003 and generally positive trends in key macroeconomic indicators suggest stronger overall production in 2004.

A challenge that we and others in the light vehicle market face is the continued price reduction pressure from our customers. Our largest customers in this market — the U.S.-based original equipment manufacturers — have experienced market share erosion to other international light vehicle manufacturers over the past few years, thereby putting additional pressure on their profitability. To the extent this trend continues, we expect the price reduction demands to continue. Our restructuring, divestitures and outsourcing initiatives have helped position us for this increasingly competitive landscape. Ongoing cost reduction programs, like our lean manufacturing and six sigma blackbelt programs, will continue to be important to sustaining and improving our margins.

The commercial vehicle market has been at the bottom of its business cycle during the past two years. Orders in both the medium and heavy-duty North American markets have been strengthening in recent months with inventories remaining stable. Consequently, the recovery in these markets appears to be underway, supporting our improved production outlook for 2004.

In our other markets — off highway, European commercial vehicles and light vehicles in the Asia Pacific and South American regions — we expect either stable or improving production demand in 2004.

Other Key Factors

In our markets, concentration of business with certain customers is common, so our efforts to achieve additional diversification are important. In the light vehicle market, we have been successful in gaining new business with several international manufacturers over the past few years. We expect