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SCF-FORD-3894

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

FORM 10-K

(Mark One)

☑ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2004

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 1-3950

Ford Motor Company
(Exact name of Registrant as specified in its charter)

Delaware *(State of incorporation)*	**38-0549190** *(I R S employer identification no)*
One American Road, Dearborn, Michigan *(Address of principal executive offices)*	**48126** *(Zip code)*

313-322-3000
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered(a)
Common Stock, par value $ 01 per share	New York Stock Exchange Pacific Coast Stock Exchange
7 50% Notes Due June 10, 2043	New York Stock Exchange
Ford Motor Company Capital Trust II 6 50% Cumulative Convertible Trust Preferred Securities, liquidation preference $50 per share	New York Stock Exchange

(a) In addition, shares of Common Stock of Ford are listed on certain stock exchanges in Europe

Securities registered pursuant to Section 12(g) of the Act:
None

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 ✓ 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 Exchange Act Rule 12b-2)
Yes ✓ No __

As of June 30, 2004, Ford had outstanding 1,760,050,800 shares of Common Stock and 70,852,076 shares of Class B Stock Based on the New York Stock Exchange Composite Transaction closing price of the Common Stock on that date ($15 65 a share), the aggregate market value of such Common Stock was $27,544,795,020 Although there is no quoted market for our Class B Stock, shares of Class B Stock may be converted at any time into an equal number of shares of Common Stock for the purpose of effecting the sale or other disposition of such shares of Common Stock The shares of Common Stock and Class B Stock outstanding at June 30, 2004 included shares owned by persons who may be deemed to be "affiliates" of Ford We do not believe, however, that any such person should be considered to be an affiliate For information concerning ownership of outstanding Common Stock and Class B Stock, see the Proxy Statement for Ford's Annual Meeting of Stockholders currently scheduled to be held on May 12, 2005 (our "Proxy Statement"), which is incorporated by reference under various Items of this Report

As of February 24, 2005, Ford had outstanding 1,760,048,400 shares of Common Stock and 70,852,076 shares of Class B Stock Based on the New York Stock Exchange Composite Transaction closing price of the Common Stock on that date ($12 80 a share), the aggregate market value of such Common Stock was $22,528,619,520

DOCUMENT INCORPORATED BY REFERENCE*

Document	Where Incorporated
Proxy Statement	Part III (Items 10, 11, 12, 13 and 14)

* As stated under various Items of this Report, only certain specified portions of such document are incorporated by reference in this Report

PART I

ITEM 1. *Business*

Ford Motor Company (referred to herein as "Ford", the "Company", "we", "our" or "us") was incorporated in Delaware in 1919 We acquired the business of a Michigan company, also known as Ford Motor Company, incorporated in 1903 to produce and sell automobiles designed and engineered by Henry Ford We are one of the world's largest producers of cars and trucks combined We and our subsidiaries also engage in other businesses, including financing and renting vehicles and equipment

In addition to the information about Ford and its subsidiaries contained in this Report, extensive information about our Company can be found throughout our website located at www ford com, including information about our management team, our brands and products, and our corporate governance principles

The corporate governance information on our website includes our Corporate Governance Principles, our Code of Ethics for Senior Financial Personnel, our Code of Ethics for Directors, our Standards of Corporate Conduct for all employees, and the Charters for each of our Board Committees In addition, amendments to, and waivers granted to our directors and executive officers under, our Codes of Ethics, if any, will be posted in this area of our website These corporate governance documents can be accessed by logging onto our web site and clicking on the "Corporate Governance" link

You will then see a list of corporate governance documents Click on the document you desire to access In addition, printed versions of our Corporate Governance Principles, our Code of Ethics for Senior Financial Personnel, our Standards of Corporate Conduct and the Charters for each of our Board Committees can be obtained, free of charge, by writing to our Shareholder Relations Department, Ford Motor Company, One American Road, P O Box 1899, Dearborn, Michigan 48126-1899

In addition to the Company information discussed above provided on our website, all of our periodic report filings with the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available, free of charge, through our website, including our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and any amendments to those reports Also, each Section 16 filing made with the SEC by the Company or any of its executive officers or directors with respect to our common stock are made available, free of charge, through our website The periodic reports and amendments and the Section 16 filings are available through our website as soon as reasonably practicable after such report or amendment is electronically filed with the SEC

To access our SEC reports or amendments or the Section 16 filings, log onto our website and click on the following link on each successive screen

- "Investor Information"
- "Company Reports"
- "U S S E C EDGAR"
- "Click here to continue to view SEC Filings"

You will then see a list of reports filed with the SEC Click on the report you desire to access

The foregoing information regarding our website and its content is for convenience only The content of our website is not deemed to be incorporated by reference into this report nor should it be deemed to have been filed with the SEC

Item 1 Business (Continued)

OVERVIEW

Segments Our business is divided into two business sectors the Automotive sector and the Financial Services sector Segment selection is based upon the organizational structure that we use to evaluate performance and make decisions on resource allocation, as well as availability and materiality of separate financial results consistent with that structure

Beginning with the second quarter of 2004, we changed the reporting of our Automotive sector from two segments (previously "Americas" and "International") to three segments "The Americas", "Ford Europe and PAG", and "Ford Asia Pacific and Africa/ Mazda" Our Automotive and Financial Services segments are described in the table below

Business Sector	Operating Segments	Description
Automotive		
	The Americas	Primarily includes the sale of Ford, Lincoln and Mercury brand vehicles and related service parts in North America (United States, Canada and Mexico) and Ford-brand vehicles and related service parts in South America, in each case, together with the associated costs to design, develop, manufacture and service these vehicles and parts
	Ford Europe and PAG	Primarily includes the sale of Ford-brand vehicles and related service parts in Europe and Turkey and the sale of Premier Automotive Group brand vehicles (i e , Volvo, Jaguar, Land Rover and Aston Martin) and related service parts throughout the world (including North and South America, Asia Pacific and Africa), together with the associated costs to design, develop, manufacture and service these vehicles and parts
	Ford Asia Pacific and Africa/Mazda	Primarily includes the sale of Ford-brand vehicles and related service parts in the Asia Pacific region and South Africa, together with the associated costs to design, develop, manufacture and service these vehicles and parts, and our share of the results of Mazda Motor Corporation (of which we own 33 4%) and certain of our Mazda-related investments
Financial Services		
	Ford Motor Credit Company	Primarily includes vehicle-related financing, leasing, and insurance
	The Hertz Corporation	Primarily includes the renting of cars and light trucks and renting of industrial and construction equipment

We provide financial information (such as revenues, income, and assets) for each of these business sectors and operating segments in three areas of this Report (1) Item 6 "Selected Financial Data", (2) Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations", and (3) Note 23 of the Notes to the Financial Statements located at the end of this Report Financial information relating to certain geographic areas also is included in these Notes

Item 1 Business (Continued)

AUTOMOTIVE SECTOR

General

We sell cars and trucks throughout the world In 2004, we sold approximately 6,798,000 vehicles throughout the world Our automotive vehicle brands include Ford, Mercury, Lincoln, Volvo, Land Rover, Jaguar and Aston Martin

Substantially all of our cars, trucks and parts are marketed through retail dealers in North America, and through distributors and dealers outside of North America At December 31, 2004, the approximate number of dealers and distributors worldwide distributing our vehicle brands was as follows

Brand	Number of Dealerships at December 31, 2004*
Ford	9,091
Mercury	2,014
Lincoln	1,421
Volvo	2,341
Land Rover	1,443
Jaguar	862
Aston Martin	125

* Because many of these dealerships distribute more than one of our brands from the same sales location, a single dealership may be counted under more than one brand

In addition to the products we sell to our dealers for retail sale, we also sell cars and trucks to our dealers for sale to fleet customers, including daily rental car companies, commercial fleet customers, leasing companies and governments Sales to all of our fleet customers in the United States in the aggregate have represented between 22% and 24% of our total U S car and truck sales for the last five years We do not depend on any single customer or small group of customers to the extent that the loss of such customer or group of customers would have a material adverse effect on our business

In addition to producing and selling cars and trucks, we also provide retail customers with a wide range of after-the-sale vehicle services and products through our dealer network, in areas such as maintenance and light repair, heavy repair, collision, vehicle accessories and extended service warranty In North America, we market these products and services under several brands including Genuine Ford and Lincoln-Mercury Parts and Service^{SM}, Ford Extended Service Plan^{SM}, and Motorcraft^{SM}

The worldwide automotive industry, Ford included, is affected significantly by a number of factors over which we have little control, including general economic conditions The automotive industry is a highly competitive, cyclical business that has a wide variety of product offerings The number of cars and trucks sold (commonly referred to as "industry demand") could vary substantially from year to year In any year, industry demand depends largely on general economic conditions, the cost of purchasing and operating cars and trucks, and the availability and cost of credit and fuel Industry demand also reflects the fact that cars and trucks are durable items that people generally can wait to replace

Our unit sales vary with the level of total industry demand and our share of that industry demand In the short term, our unit sales also are influenced by the level of dealer inventory Our share is influenced by how our products compare with those offered by other manufacturers based on many factors, including price, quality, styling, reliability, safety, and functionality Our share also is affected by our timing of new model introductions and manufacturing capacity limitations Our ability to satisfy changing consumer preferences with respect to type or size of vehicle, as well as design and performance characteristics, can impact our sales and earnings significantly

Item 1 Business (Continued)

The profitability of vehicle sales is affected by many factors, including the following

- unit sales volume,
- the mix of vehicles and options sold,
- the margin of profit on each vehicle sold,
- the level of "incentives" (price discounts) and other marketing costs,
- the costs for customer warranty claims and additional service actions, and
- the costs for safety, emission and fuel economy technology and equipment

Further, because Ford and other manufacturers have a high proportion of costs that are relatively fixed (including labor costs), small changes in unit sales volumes can significantly affect overall profitability

In addition, the automobile industry continues to face a very competitive pricing environment, driven in part by industry excess capacity For the past several decades, manufacturers typically have given price discounts and other marketing incentives to purchasers to maintain their market shares and production levels A discussion of our strategies to compete in this pricing environment is set forth below in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview"

Competitive Position The worldwide automotive industry consists of many producers, with no single dominant producer Certain manufacturers, however, account for the major percentage of total sales within particular countries, especially their countries of origin Detailed information regarding our competitive position in the principal markets where we compete can be found below as part of the overall discussion of the automotive industry in those markets

Seasonality We generally record the sale of a vehicle (and recognize sales proceeds in revenue) when it is produced and shipped to our customer (i e , our dealer or distributor) We manage our vehicle production schedule based on a number of factors, including dealer stock levels (i e , number of units held in inventory by our dealers and distributors for sale to retail and fleet customers) and retail sales (i e , units sold by our dealers and distributors to their customers at retail) We experience some fluctuation in the business of a seasonal nature, generally in the second and third quarters, primarily as the result of the summer vacation shutdown of our manufacturing facilities during the third quarter Typically, production is higher in the second quarter in anticipation of the shutdown and lower in the third quarter due to the downtime As a result, operating results for the third quarter typically are less favorable than those of the other quarters

Raw Materials We purchase a wide variety of raw materials for use in the production of our vehicles from numerous suppliers around the world These raw materials include non-ferrous metals (e g , aluminum), precious metals (e g , palladium), ferrous metals (e g , steel and iron castings), energy (e g , natural gas) and resins (e g , polypropylene) We believe that we have adequate supplies or sources of availability of the raw materials necessary to meet our needs However, there are risks and uncertainties with respect to the supply of certain of these raw materials that could impact their availability in sufficient quantities to meet our needs See Item 7 "Management Discussion and Analysis of Financial Condition and Results of Operations — Overview" for a discussion of commodity price trends

Backlog Orders We generally produce and ship our products on average within approximately 20 days after an order is deemed to become firm Therefore, no significant amount of backlog orders accumulates during any period

Intellectual Property We own, or hold licenses to use, numerous patents, copyrights and trademarks on a global basis Our policy is to protect our competitive position by, among other

Item 1 Business (Continued)

methods, filing U S and international patent applications to protect technology and improvements that we consider important to the development of our business As such, we have generated a large number of patents related to the operation of our business and expect this portfolio to continue to grow as we actively pursue additional technological innovation We currently have approximately 11,000 active patents and pending patent applications globally, with an average age for patents in our active patent portfolio being 5 years In addition to this intellectual property, we also rely on our proprietary knowledge and ongoing technological innovation to develop and maintain our competitive position While we believe these patents, patent applications and know-how, in the aggregate, to be important to the conduct of our business, and we obtain licenses to use certain intellectual property owned by others, none is individually considered material to our business Similarly, we own numerous trademarks and service marks that contribute to the identity and recognition of our company and its products and services globally Certain of these marks are integral to the conduct of our business, the loss of which could have a material adverse effect on our business

United States

Sales Data The following table shows U S industry sales of cars and trucks for the years indicated

	U S Industry Sales				
	Years Ended December 31,				
	2004	2003	2002	2001	2000
	(millions of units)				
Cars	7 5	7 6	8 1	8 4	8 8
Trucks	9 8	9 4	9 0	9 1	9 0
Total	17 3	17 0	17 1	17 5	17 8

We classify cars by small, medium, large and premium segments and trucks by compact pickup, bus/van (including minivans), full-size pickup, sport utility vehicles and medium/heavy segments However, with the introduction of crossover vehicles, the distinction between traditional cars and trucks has become more difficult to draw and these vehicles are not consistently classified as either by the various manufacturers In the tables above and below, we have classified crossover vehicles as sport utility vehicles We also have classified as "premium" cars all of our luxury cars, regardless of size The term "bus" as used in this discussion refers to vans designed to carry passengers Annually, we conduct a comprehensive review of many factors to determine the appropriate classification of vehicle segments This review may result in a change of classification of certain vehicles

Item 1 Business (Continued)

The following tables show the proportion of United States car and truck unit sales by segment for the industry (including both domestic and foreign-based manufacturers) and Ford (including all of our brands sold in the U S) for the years indicated

	U S Industry Vehicle Mix of Sales by Segment				
	Years Ended December 31,				
	2004	2003	2002	2001	2000
CARS					
Small	15 9%	16 4%	17 3%	18 4%	18 1%
Medium	13 6	14 8	15 6	15 8	16 9
Large	6 3	6 1	6 9	7 1	7 9
Premium	7 6	7 6	7 5	6 9	6 8
Total U S Industry Car Sales	43 4	44 9	47 3	48 2	49 7
TRUCKS					
Compact Pickup	4 0%	4 4%	4 7%	5 1%	6 0%
Bus/ Van	8 2	8 0	8 6	8 7	10 0
Full-Size Pickup	14 6	14 0	13 1	13 4	12 3
Sport Utility Vehicles	27 6	27 0	24 9	23 0	19 7
Medium/ Heavy	2 2	1 7	1 4	1 6	2 3
Total U S Industry Truck Sales	56 6	55 1	52 7	51 8	50 3
Total U S Industry Vehicle Sales	100 0%	100 0%	100 0%	100 0%	100 0%

	Ford Vehicle Mix of Sales by Segment in U S				
	Years Ended December 31,				
	2004	2003	2002	2001	2000
CARS					
Small	10 2%	11 4%	12 5%	14 0%	14 5%
Medium	8 8	10 4	11 9	11 5	13 0
Large	5 0	4 8	4 4	5 2	5 1
Premium	6 6	7 0	7 8	7 0	7 5
Total Ford U S Car Sales	30 6	33 6	36 6	37 7	40 1
TRUCKS					
Compact Pickup	4 7%	6 0%	6 2%	6 9%	7 8%
Bus/ Van	8 8	8 4	9 1	9 1	10 5
Full-Size Pickup	28 2	24 3	22 5	22 9	20 9
Sport Utility Vehicles	27 4	27 5	25 4	23 2	20 4
Medium/ Heavy	0 3	0 2	0 2	0 2	0 3
Total Ford U S Truck Sales	69 4	66 4	63 4	62 3	59 9
Total Ford U S Vehicle Sales	100 0%	100 0%	100 0%	100 0%	100 0%

As the tables above indicate, there has been a general shift from cars to trucks for both industry sales and Ford sales This shift has been occurring steadily over a number of years Ford's sales of trucks as a percentage of its total vehicle sales has also increased since 2000 because of higher sales of sport utility vehicles and full-size pickups

Market Share Data Our principal competitors in the United States include General Motors Corporation, DaimlerChrysler Corporation, Toyota Corporation, and Honda Motor Corporation The following tables show changes in car and truck United States market shares for Ford (including all of our brands sold in the U S) and the other four leading vehicle manufacturers for the years indicated

Item 1 Business (Continued)

The percentages in each of the following tables represent the percentage of the combined car and truck industry

	U S Car Market Shares*				
	Years Ended December 31,				
	2004	2003	2002	2001	2000
Ford**	5 9%	6 9%	7 7%	8 6%	9 5%
General Motors	10 9	11 5	12 1	13 0	14 2
DaimlerChrysler	3 8	3 8	4 1	4 1	4 5
Toyota	6 4	5 9	5 8	5 5	5 5
Honda	4 9	4 8	4 9	5 1	5 0
All Other***	11 5	12 0	12 7	11 9	11 0
Total U S Car Retail Deliveries	43 4%	44 9%	47 3%	48 2%	49 7%

	U S Truck Market Shares*				
	Years Ended December 31,				
	2004	2003	2002	2001	2000
Ford**	13 4%	13 6%	13 4%	14 2%	14 2%
General Motors	16 2	16 4	16 2	15 0	13 6
DaimlerChrysler	10 3	10 0	10 0	10 1	10 8
Toyota	5 5	5 1	4 5	4 5	3 6
Honda	3 2	3 1	2 4	1 8	1 6
All Other***	8 0	6 9	6 2	6 2	6 5
Total U S Truck Retail Deliveries	56 6%	55 1%	52 7%	51 8%	50 3%

	U S Combined Car and Truck Market Shares*				
	Years Ended December 31,				
	2004	2003	2002	2001	2000
Ford**	19 3%	20 5%	21 1%	22 8%	23 7%
General Motors	27 1	27 9	28 3	28 0	27 8
DaimlerChrysler	14 1	13 8	14 1	14 2	15 3
Toyota	11 9	11 0	10 3	10 0	9 1
Honda	8 1	7 9	7 3	6 9	6 6
All Other***	19 5	18 9	18 9	18 9	18 1
Total U S Car and Truck Retail Deliveries	100 0%	100 0%	100 0%	100 0%	100 0%

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* All U S retail sales data are based on publicly available information from the media and trade publications

** Ford purchased Land Rover on June 30, 2000 The figures shown above include Land Rover data in Ford's market share beginning July 1, 2000

*** "All Other" ıncludes prımarıly companıes based ın varıous European countrıes, Korea and other Japanese manufacturers and, wıth respect to the U S Truck Market Shares table and U S Combıned Car and Truck Market Shares table, ıncludes heavy truck manufacturers

The declıne ın overall market share for Ford sınce 2000 ıs prımarıly the result of ıncreased competıtıon and actıons we have taken to ımprove our profitabılıty, ıncludıng the dıscontınuance of a number of vehıcles (e g , Ford Escort, Ford Explorer Sport, Mercury Cougar, Mercury Vıllager and Lıncoln Contınental), a contınued focus on profitable commercıal and government fleet sales and a planned reductıon of low-margın sales to daıly rental car companıes

Fleet Sales The sales data and market share ınformatıon provıded above include both retaıl and fleet sales Fleet sales ınclude sales to daıly rental car companıes, commercıal fleet customers, leasıng companıes and governments Fleet sales generally are less profitable than retaıl sales and,

Item 1 Business (Continued)

within the fleet sales category, sales to daily rental car companies generally are less profitable than sales to other fleet purchasers

The table below shows our fleet sales in the United States, and the amount of those sales as a percentage of our total United States car and truck sales, for the last five years

	Ford Fleet Sales				
	Years Ended December 31,				
	2004	2003	2002	2001	2000
Daily Rental Units sold	415,000	429,000	446,000	452,000	472,000
Commercial and Other Units sold	243,000	222,000	247,000	290,000	335,000
Government Units sold	133,000	124,000	123,000	143,000	170,000
Total Fleet Units sold	791,000	775,000	816,000	885,000	977,000
Percent of Ford's total U S car and truck sales	24%	22%	23%	22%	23%

As the table above indicates, sales to daily rental car companies have declined for the fourth consecutive year This decline reflects primarily the continued execution of our strategy to reduce sales to daily rental car companies in order to improve our overall profitability Commercial and government fleet sales increased in 2004 after three years of broad weakness in these segments driven by difficult economic conditions

Warranty Coverage and Additional Service Actions We presently provide warranty coverage for defects in factory-supplied materials and workmanship on all vehicles sold in the United States The warranty coverage for Ford/ Mercury vehicles generally extends for 36 months or 36,000 miles (whichever occurs first) and covers components of the vehicle, including tires The U S warranty coverage for luxury vehicles (Lincoln, Jaguar, Volvo and Land Rover) generally extends for 48 months or 50,000 miles (whichever occurs first) Warranty coverage for safety restraint systems (safety belts, air bags and related components) extends for 60 months or 50,000 miles (whichever occurs first), except on Volvo vehicles, which is 60 months/unlimited mileage Also, corrosion damage resulting in perforation (holes) in body sheet metal panels is covered for 60 months/unlimited mileage, with 72 months/ unlimited mileage on Jaguar/ Land Rover products, 96 months/unlimited mileage on Volvo vehicles prior to the 2004 model year and 144 months/unlimited mileage on Volvo vehicles starting with the 2005 model year In addition, the Federal Clean Air Act requires warranty coverage for 8 years or 80,000 miles (whichever occurs first) for emissions equipment (e g , catalytic converter and powertrain control module) on most light-duty vehicles sold in the United States As a result of these warranties, costs for warranty repairs can be substantial

In addition to the costs associated with the contractual warranty coverage provided on our vehicles, we also incur costs as a result of additional service actions not covered by our warranties, including product recalls and customer satisfaction actions

Estimated warranty costs and additional service action costs for each vehicle sold by us are accrued at the time of sale Accruals for estimated warranty costs and additional service action costs are subject to adjustment from time to time depending on actual experience

For additional information with respect to costs for warranty and additional service actions, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates" and Note 26 of the Notes to the Financial Statements

Europe

Market Share Information Outside of the United States, Europe is our largest market for the sale of cars and trucks We consider Europe to consist of the following 19 markets Britain, Germany, France, Italy, Spain, Austria, Belgium, Ireland, Netherlands, Portugal, Switzerland, Finland,

Item 1 Business (Continued)

Sweden, Denmark, Norway, Czech Republic, Greece, Hungary and Poland The automotive industry in Europe is intensely competitive Our principal competitors in Europe include General Motors Corporation, Volkswagen A G Group, PSA Group, Renault Group and Fiat SpA For the past 10 years, the top six manufacturers have collectively held between 69% and 74% of the total car market This competitive environment is expected to intensify further as Japanese manufacturers increase their production capacity in Europe, and all of the other (non-Ford) manufacturers of premium brands (e g , BMW, Mercedes Benz and Audi) continue to broaden their product offerings For a discussion of improvement actions we have taken in our Ford Europe and PAG segment in 2003 and 2004, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview"

In 2004, vehicle manufacturers sold approximately 17 6 million cars and trucks in Europe, up 2 6% from 2003 levels Our combined car and truck market share in Europe (including all of our brands sold in Europe) in 2004 was 11 0%, up 0 3 percentage points from 2003

Britain and Germany are our most important markets within Europe, although the Southern European countries are becoming increasingly significant Any adverse change in the British or German market has a significant effect on our total European automotive profits For 2004 compared with 2003, total industry sales were up 0 5% m Britain and up 1 2% in Germany Our combined car and truck market share in these markets (including all of our brands sold in these markets) in 2004 was 19 7% in Britain (the same as in the previous year) and 8 8% in Germany (up 0 2 percentage points from the previous year)

Marketing Incentives The automotive industry in Europe continues to be intensely competitive In Europe in 2004, increased competition resulted in substantial retail and fleet incentive spending on the part of Ford and most manufacturers, particularly in our key European market of Britain Similar to the United States, marketing costs in Europe include primarily (i) marketing incentives on vehicles, such as rebates and costs for special financing and lease programs, (ii) accruals for costs and/or losses associated with our required repurchase of certain vehicles sold to daily rental car companies, and (iii) costs for advertising and sales promotions for vehicles We utilize revenue management strategies in Europe consistent with those in the United States A discussion of our revenue management strategies is set forth below in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview"

Motor Vehicle Distribution in Europe On October 1, 2002, the Commission of the European Union ("Commission") adopted a new regulation that changed the way motor vehicles are sold and repaired throughout the European Community (the "Block Exemption Regulation") Under the Block Exemption Regulation, manufacturers had the choice to either operate an "exclusive" distribution system with exclusive dealer sales territories, but with the possibility of sales to any reseller (e g , supermarket chains, internet agencies and other resellers not authorized by the manufacturer), who in turn could sell to end customers both within and outside of the dealer's exclusive sales territory, or a "selective" distribution system

We, as well as the vast majority of the other automotive manufacturers, have elected to establish a "selective" distribution system, allowing us to restrict the dealer's ability to sell our vehicles to unauthorized resellers In addition, under the "selective" distribution system, we are entitled to determine the number of our dealers, but beginning in October 2005, not their location Under either system, the new rules make it easier for a dealer to display and sell multiple brands in one store without the need to maintain separate facilities

Within this new regulation, the Commission also has adopted sweeping changes to the repair industry Dealers can no longer be required by the manufacturer to perform repair work themselves Instead, dealers can subcontract the work to independent repair shops that meet reasonable criteria set by the manufacturer These authorized repair facilities can perform warranty and recall work, in

Item 1 Business (Continued)

addition to other repair and maintenance work While a manufacturer can continue to require the use of its parts in warranty and recall work, the repair facility can use parts made by others that are of comparable quality for all other repair work We have negotiated and implemented new Dealer, Authorized Repairer and Spare Part Supply contracts on a country-by-country level and, therefore, the Block Exemption Regulation now applies with respect to all of our dealers

With these new rules, the Commission intends to increase competition and narrow car price differences from country to country While it remains difficult to quantify the full impact of these changes on our European operations, the Block Exemption Regulation continued to contribute to an increasingly competitive market for vehicles and parts This has contributed to an increase in marketing expenses, thus negatively affecting the profitability of our Ford Europe and PAG segment We anticipate that this trend may continue as dealers and parts suppliers become increasingly organized and established

Warranty Coverage and Additional Service Actions Beginning in January 2002, warranty coverage provided by volume manufacturers (including Ford) in most of our European markets increased from one year with unlimited mileage to two years with unlimited mileage This increase in warranty coverage was prompted by new consumer laws in eleven of our nineteen European markets that granted private buyers a two-year period in which to pursue defects in goods (including vehicles and substantial components) Prior to January 2002, Ford provided warranty coverage on Volvo brand (only in Britain) vehicles that extended for 36 months or 60,000 miles and will continue to provide such warranty coverage In Britain, Ford provides a warranty package on Ford-brand vehicles that includes a 36 month warranty composed of a 12 month/unlimited mileage base warranty and free of charge OEW (Extended Service Plan) covering up to a further 24 months and 60,000 miles Commercial vehicles (e g , Ford Transit and Ford Transit Connect) carry a 24 month/unlimited mileage warranty except in Britain where Ford currently provides a 36 month/ 100,000 mile base warranty In Britain, Jaguar and Land Rover provide 36 month/unlimited mileage warranty, enhanced in January 2002 to unlimited mileage from the previous 36 month/60,000 mile warranty In mainland Europe, Jaguar provides 36 month/unlimited mileage warranty, enhanced in January 2002 to unlimited mileage from the previous 100,000 km limit, Land Rover provides 36 month/100,000 km warranty, enhanced in November 2001 from the previous 12 month warranty, and Volvo provides 24 month/unlimited mileage warranty In addition to the base warranties discussed above, Ford warrants the bodywork of all of its brands against rust perforation for periods between 6 years and 12 years As a result of these warranties, costs for warranty repairs can be substantial

In addition to the costs associated with the contractual warranty coverage provided on our vehicles, we also incur costs as a result of additional service actions not covered by our warranties, including product recalls and customer satisfaction actions

Estimated warranty costs and additional service action costs for each vehicle sold by us are accrued at the time of sale Accruals for estimated warranty costs and additional service action costs are subject to adjustment from time to time depending on actual experience

For additional information with respect to costs for warranty and additional service actions, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates" and Note 26 of the Notes to the Financial Statements

Other Markets

Canada and Mexico Canada and Mexico also are important markets for us In Canada, industry sales of new cars and trucks in 2004 were approximately 1 57 million units, down 3 2% from 2003 levels In 2004, industry sales of new cars and trucks in Mexico were approximately 1 12 million units, up 12 0% from 2003 Our combined car and truck market share in these markets (including all of our

Item 1 Business (Continued)

brands sold in these markets) in 2004 was 14 5% in Canada (down 1 3 percentage points from the previous year) and 16 5% in Mexico (about the same as the previous year)

South America Brazil and Argentina are our principal markets in South America The economic environment in those countries has been volatile in recent years, particularly in 2002 and 2003, leading to large variations in industry sales The 2004 results have been favorably influenced by improved economic conditions, political stability and government actions to reduce inflation and public deficits Industry sales in 2004 were approximately 1 6 million units in Brazil, up about 10 6% from 2003, and approximately 280,000 units in Argentina, up 99% from 2003 Our combined car and truck market share in these markets (including all of our brands sold in these markets) in 2004 was 12 3% in Brazil (up 0 2 percentage points from the previous year) and 18 5% in Argentina (down 2 8 percentage points from the previous year)

Asia Pacific In the Asia Pacific region, Australia, Taiwan, Thailand and Japan are our principal markets Details of the industry volumes and our combined car and truck market share for these countries (including all of our brands sold in a particular country) are shown below

	Industry Volumes (in thousands)				Corporate Market Share		
	2004200	3	2004 Over/(Under) 2003		2004	2003	2004 Over/(Under) 2003
Australia	955	910	45	5 0%	14 9%	14 8%	0 1 pts
Taiwan	484	414	70	17 0%	16 0%	17 3%	(1 3) pts
Thailand	626	532	94	17 7%	4 3%	5 0%	(0 7) pts
Japan	5,853	5,828	25	0 4%	*	*	*

* Our combined car and truck market share in Japan has been less than 1% in recent years

In addition, we own a 33 4% interest in Mazda Motor Corporation ("Mazda") and account for Mazda on an equity basis Mazda's market share in Japan has been about 4 6% in recent years Our principal competition in the Asia Pacific region has been the Japanese manufacturers We anticipate that the ongoing relaxation of import restrictions (including duty reductions) will continue to intensify competition in the region

We began operations in India in 1999, launching an all-new small car (the Ikon) designed specifically for that market In 2003 we launched the Endeavor, Ford's first SUV in India, and we also launched the Fusion in late 2004 Our operations in India also sell components to other Ford affiliates

We also are in the process of increasing our presence in China Changan Ford is our 50/50 joint venture operation with Chongqing Changan Automobile Co, Ltd The Changan Ford assembly plant located in Chongqing became operational and began producing the Fiesta model in January 2003 and the Mondeo model in mid-2003 We have also announced that more than $1 billion would be invested over the next several years to expand manufacturing capacity, introduce new products and expand distribution channels in the Chinese automotive market This investment will initially support the addition of new products and expansion of production capacity at Changan Ford in Chongqing from 50,000 units per year to 200,000 units per year It will also support the establishment of a second assembly plant and a new engine plant to be located in Nanjing In addition, we have a 30% interest in Jiangling Motors Corporation with operations located in Nanchang We also import Jaguar, Volvo, Land Rover, and selected Ford vehicles into China Also, during 2002, a new purchasing office was established in China to take advantage of sourcing opportunities for global markets from that country

Item 1 Business (Continued)

FINANCIAL SERVICES SECTOR

Ford Motor Credit Company

Ford Motor Credit Company ("Ford Credit") offers a wide variety of automotive financial services to and through automotive dealers throughout the world Ford Credit's primary financial products fall into three categories

- Retail financing — purchasing retail installment sale contracts and retail leases from dealers, and offering financing to commercial customers, primarily vehicle leasing companies and fleet purchasers, to purchase or lease vehicle fleets,
- Wholesale financing — making loans to dealers to finance the purchase of vehicle inventory, also known as floorplan financing, and
- Other financing — making loans to dealers for working capital, improvements to dealership facilities, and the acquisition and refinancing of dealership real estate

Ford Credit also services the finance receivables and leases it originates and purchases, makes loans to its affiliates, purchases certain receivables from us and our subsidiaries, and provides insurance services related to its financing programs Ford Credit's revenues are earned primarily from retail installment sale contracts and retail leases, including interest supplements and other support payments it receives from us on special-rate retail financing programs, from investment and other income related to sold receivables, and from payments made under wholesale and other dealer loan financing programs

Ford Credit does business in all 50 states of the United States through about 130 dealer automotive financing branches and seven regional service centers, and does business in all provinces in Canada through 14 dealer automotive financing branches and two regional service centers Outside the United States, FCE Bank plc ("FCE") is Ford Credit's largest operation FCE's primary business is to support the sale of our vehicles in Europe through our dealer network FCE offers a variety of retail, leasing and wholesale finance plans m most countries in which it operates FCE does business in the United Kingdom, Germany and most other European countries Ford Credit, through its subsidiaries, also operates in the Asia Pacific and Latin American regions In addition, Ford Credit manages our vehicle financing operations in other countries where Ford Credit does not have operations

Ford Credit's share of retail financing for new Ford, Lincoln and Mercury brand vehicles sold by dealers in the United States and new Ford-brand vehicles sold by dealers in Europe, and Ford Credit's share of wholesale financing for new Ford, Lincoln and Mercury brand vehicles acquired by dealers in the United States, excluding fleet, and of new Ford-brand vehicles acquired by dealers in Europe were as follows during the last three years

	Years Ended December 31,		
	2004	2003	2002
United States			
Financing share — Ford, Lincoln and Mercury			
Retail installment and lease	45%	39%	41%
Wholesale	84	85	85
Europe			
Financing share — Ford			
Retail installment and lease	29%	31%	34%
Wholesale	97	97	97

For a detailed discussion of Ford Credit's receivables, credit losses, allowance for credit losses, loss-to-receivables ratios, funding sources and funding strategies, see Item 7 "Management's

Item 1 Business (Continued)

Discussion and Analysis of Financial Condition and Results of Operations" For a discussion of how Ford Credit manages its financial market risks, see Item 7A "Quantitative and Qualitative Disclosure About Market Risk"

The predominant share of Ford Credit's business consists of financing our vehicles and supporting our dealers Any extended reduction or suspension of the production or sale of our vehicles due to a decline in consumer demand, work stoppage, governmental action, negative publicity or other event, or significant changes to marketing programs sponsored by us, would have an adverse effect on Ford Credit's business

We sponsor special-rate financing programs available only through Ford Credit Under these programs, we make interest supplement or other support payments to Ford Credit These programs may increase Ford Credit's financing volume and share of financing sales of our vehicles See Note 1 of the Notes to the Financial Statements for more information about these support payments

Under a profit maintenance agreement with Ford Credit, we have agreed to make payments to maintain Ford Credit's earnings at certain levels In addition, under a support agreement with FCE, Ford Credit has agreed to maintain FCE's net worth above a minimum level No payments were made under either of these agreements during the 2002 through 2004 periods

The Hertz Corporation

The Hertz Corporation ("Hertz"), an indirect, wholly-owned subsidiary of Ford, and its affiliates, associates and independent licensees represent what we believe is the largest worldwide general use car rental brand based upon revenues Hertz maintains a substantial network of company-owned car rental locations in the United States, Europe and other countries, and what we believe to be the largest number of on-airport car rental locations in the world, enabling Hertz to provide consistent quality, pricing and service worldwide Hertz derives approximately 74% of its car rental revenues from on-airport locations The Hertz #1 Club Gold® service provides an expedited rental service to members worldwide Through its many travel industry relationships with airlines and hotels, Hertz has targeted the most frequent travelers to become Hertz #1 Club Gold® members

Hertz, through its wholly owned subsidiary, Hertz Equipment Rental Corporation ("HERC"), also operates one of the largest industrial and construction equipment rental businesses in North America based upon revenues and maintains a significant market share in the North American industrial and construction equipment rental market HERC rents a broad range of earthmoving equipment, material handling equipment, aerial and electrical equipment, air compressors, pumps, small tools, compaction equipment and construction-related trucks

Other activities of Hertz include self-insurance operations for both its car rental and industrial and construction equipment rental businesses, the sale of its used cars and equipment and third-party claim management services

Hertz operates its businesses from over 7,200 locations throughout the United States and in over 150 foreign countries and jurisdictions

Below are some financial highlights for Hertz as consolidated in our Statement of Income (in millions)

	Years Ended December 31,	
	2004	2003
Revenue	$ 6,684	$5,926
Pre-Tax Income	493	228
Income from continuing operations	365	149
Net Income/(Loss)	365	149

Item 1 Business (Continued)

GOVERNMENTAL STANDARDS

A number of governmental standards and regulations relating to safety, corporate average fuel economy ("CAFE"), emissions control, noise control, damageability, and theft prevention are applicable to new motor vehicles, engines, and equipment manufactured for sale in the United States, Europe and elsewhere In addition, manufacturing and assembly facilities in the United States, Europe and elsewhere are subject to stringent standards regulating air emissions, water discharges, and the handling and disposal of hazardous substances Such facilities also may be subject to comprehensive national, regional, and/or local permit programs with respect to such matters

Mobile Source Emissions Control

U S Requirements The federal Clean Air Act imposes stringent limits on the amount of regulated pollutants that lawfully may be emitted by new motor vehicles and engines produced for sale in the United States In 1999, the United States Environmental Protection Agency ("EPA") promulgated post-2004 model year standards that were more stringent than the default standards contained in the Clean Air Act These regulations require light-duty trucks and certain heavy-duty passenger-carrying trucks to meet the same emissions standards as passenger cars by the 2007 model year, and extend emissions durability requirements to 120,000 or 150,000 miles (depending on the specific standards to which the vehicle is certified) The stringency of these standards presents compliance challenges and is likely to hinder efforts to employ light-duty diesel technology, which could negatively impact our ability to meet CAFE standards The EPA also promulgated post-2004 emission standards for "heavy-duty" trucks (8,500-14,000 lbs gross vehicle weight), which are also likely to pose technological challenges

The EPA also is evaluating the need for new mobile source rules addressing a different group of pollutants called air toxics The EPA is expected to issue a proposed rulemaking in 2005 that will probably lead to new standards, it is too early to determine what impact this will have on vehicle emission control systems In addition, the EPA designated several new areas as ozone and/or particulate matter non-attainment areas, which may result in the EPA implementing even more stringent emission standards for vehicles in the 2009-2010 timeframe

Pursuant to the Clean Air Act, California has received a waiver from the EPA to establish its own unique emissions control standards New vehicles and engines sold in California must be certified by the California Air Resources Board ("CARB") CARB has adopted stringent vehicle emissions standards that began phasing in with the 2004 model year These new standards treat most light-duty trucks the same as passenger cars, and require both types of vehicles to meet new stringent emissions requirements As with the EPA's post-2004 standards, CARB's vehicle standards present a difficult engineering challenge, and will essentially rule out the use of light-duty diesel technology

Since 1990, the California program has included requirements for manufacturers to produce and deliver for sale zero-emission vehicles ("ZEVs"), which produce no emissions of regulated pollutants (typically battery-powered vehicles, which have had narrow consumer appeal due to their limited range, reduced functionality, and high cost) This ZEV mandate initially required that a specified percentage of each manufacturer's vehicles produced for sale in California be ZEVs, beginning at 2% in 1998 and increasing to 10% in 2003 In 1996, CARB eliminated the ZEV mandate for the 1998-2002 model years, but retained the 10% mandate in a modified form beginning with the 2003 model year

In April 2003, CARB adopted new amendments to the ZEV mandate that shifted the near-term focus of the regulation away from battery-electric vehicles to advanced-technology vehicles (e g , hybrid electric vehicles or natural gas vehicles) with extremely low tailpipe emissions The rules

Item 1 Business (Continued)

also give some credit for so-called "partial zero emission vehicles" ("PZEVs"), which can be internal combustion engine vehicles certified to very low tailpipe emissions and zero evaporative emissions In addition, the rules call on the auto industry to ramp up production of zero-emission fuel cell vehicles over the longer term In the aggregate, the industry must produce 250 zero-emission fuel cell vehicles by the 2008 model year, and 2,500 more in the 2009-2011 model year period A panel of independent experts will review the feasibility of these requirements in 2006 While the changes appear to reflect a recognition that battery-electric vehicles simply do not have the potential to achieve widespread customer acceptance, there are substantial questions about the feasibility of producing the required number of fuel-cell vehicles due to the substantial engineering challenges and high costs associated with this technology

The Clean Air Act permits other states that do not meet national ambient air quality standards to adopt California's motor vehicle emission standards no later than two years before the affected model year New York, Massachusetts, Vermont, and Maine adopted the California standards effective with the 2001 model year or before, New York, Massachusetts and Vermont have adopted the California ZEV mandate beginning with the 2007 model year In January 2004, the New Jersey legislature voted to adopt California standards, including the ZEV mandate, beginning with model year 2009 Other states, including Maryland, New Hampshire, Oregon and Washington, are currently considering the adoption of California standards, including the ZEV mandate There are problems inherent in transferring California standards to other states, including the following 1) the driving range of many ZEVs is greatly diminished in cold weather, thereby limiting their market appeal, and 2) the northeast states have refused to adopt the California reformulated gasoline regulations, which may impair the ability of vehicles to meet California's in-use standards

Ford has accumulated ZEV credits in California, New York and Massachusetts through past sales of battery electric vehicles, and we have plans to accumulate more credits by selling future PZEV models In the longer term, however, it is doubtful whether the market will support the number of required ZEVs, even taking into account the recent modifications of the ZEV mandate Fuel cell technology may in the future enable production of ZEVs with widespread consumer appeal However, due to the engineering challenges, the high cost of the technology, infrastructure needs, and other issues, it does not appear that mass production of fuel cell vehicles will be commercially feasible for years to come Compliance with the ZEV mandate may eventually require costly actions that would have a substantial adverse effect on Ford's sales volume and profits For example, Ford could be required to curtail the sale of non-ZEVs and/or offer to sell ZEVs and PZEVs well below cost

Under the Clean Air Act, the EPA and CARB may require manufacturers to recall and repair non-conforming vehicles (which may be identified by testing or analysis done by the manufacturer, EPA or CARB), or we may voluntarily stop shipment of or recall non-conforming vehicles The costs of related repairs or inspections associated with such recalls, or a stop shipment order, could be substantial

European Requirements European Union ("EU") directives and related legislation limit the amount of regulated pollutants that may be emitted by new motor vehicles and engines sold in the EU In 1998, the EU adopted a new directive on emissions from passenger cars and light commercial trucks More stringent emissions standards applied to new car certifications beginning January 1, 2000 and to new car registrations beginning January 1, 2001 ("Stage III Standards") A second level of even more stringent emissions standards apply to new car certifications beginning January 1, 2005 and to new car registrations beginning January 1, 2006 ("Stage IV Standards") The comparable light commercial truck Stage III Standards and Stage IV Standards come into effect one year later than the passenger car requirements The directive also introduced on-board diagnostic requirements, more stringent evaporative emissions requirements, and in-service compliance testing and recall provisions for emissions-related defects that occur in the first five years or

Item 1 Business (Continued)

80,000 kilometers of vehicle life (extended to 100,000 kilometers in 2005) Failures of in-service compliance tests could lead to vehicle recalls with substantial costs for related inspections or repairs The Stage IV Standards for diesel engines have proven technologically difficult and have precluded manufacturers from offering some products in time to be eligible for government incentive programs A related EU directive was adopted, also in 1998, which established standards for cleaner fuels beginning in 2000 and even cleaner fuels in 2005 The EU commenced a program in 2004 to determine the specifics for further changes to vehicle emission standards

Other National Requirements Many countries, in an effort to address their air quality problems, are adopting previous versions of European or United Nations Economic Commission for Europe mobile source emissions regulations Some countries have adopted more advanced regulations based on the most recent version of European or U S regulations, for example, China has adopted the most recent European standards to be implemented in the 2008-2010 timeframe Korea and Taiwan have adopted very stringent U S based standards Because fleet average requirements do not apply, some vehicle emission control systems may have to be redesigned to meet the requirements in these markets Japan has unique standards and test procedures and is considering more stringent standards for implementation in 2009 This may require unique emission control systems being designed for the Japanese market

Stationary Source Emissions Control

In the United States, the Federal Clean Air Act also requires the EPA to identify "hazardous air pollutants" from various industries and promulgate rules restricting their emission The EPA has issued proposed or final rules for a variety of industrial categories, several of which would further regulate emissions from our U S operations, including engine testing, automobile surface coating and iron casting These technology-based standards could require certain of our facilities to significantly reduce their air emissions Additional programs under the Clean Air Act, including Compliance Assurance Monitoring and periodic monitoring could require our facilities to install additional emission monitoring equipment The cost to us, in the aggregate, to comply with these requirements could be substantial

Motor Vehicle Safety

U S Requirements The National Traffic and Motor Vehicle Safety Act of 1966 (the "Safety Act") regulates motor vehicles and motor vehicle equipment in the United States in two primary ways First, the Safety Act prohibits the sale in the United States of any new vehicle or equipment that does not conform to applicable motor vehicle safety standards established by the National Highway Traffic Safety Administration ("NHTSA") Meeting or exceeding many safety standards is costly, because the standards tend to conflict with the need to reduce vehicle weight in order to meet emissions and fuel economy standards Second, the Safety Act requires that defects related to motor vehicle safety be remedied through safety recall campaigns A manufacturer also is obligated to recall vehicles if it determines that the vehicles do not comply with a safety standard Should Ford or NHTSA determine that either a safety defect or a noncompliance exists with respect to certain of Ford's vehicles, the costs of such recall campaigns could be substantial There were pending before NHTSA six investigations relating to alleged safety defects or potential compliance issues in Ford vehicles as of February 21, 2005

The Transportation Recall Enhancement, Accountability, and Documentation Act (the "TREAD Act") was signed into law in November 2000 The TREAD Act required NHTSA to establish several new regulations, including reporting requirements for motor vehicle manufacturers on foreign recalls and certain information received by the manufacturer that may assist the agency in the early identification of safety defects As part of its rulemaking efforts, NHTSA defined certain types of material provided by manufacturers as competitively sensitive and entitled to a presumption of

Item 1 Business (Continued)

confidentiality, including warranty claim information, field reports, and consumer complaint information Public Citizen, an advocacy organization, has filed a lawsuit challenging NHTSA's confidentiality determinations, which may be resolved in the 2005 calendar year If Public Citizen prevails, Ford and other manufacturers may lose the ability to protect warranty and consumer information after it is submitted to NHTSA pursuant to the TREAD Act

Foreign Requirements Canada, the EU, individual member countries within the EU, and other countries in Europe, South America and the Asia Pacific markets also have safety standards applicable to motor vehicles and are likely to adopt additional or more stringent standards in the future In addition, the European Automobile Manufacturers Association ("EAMA") (also known in Europe as the "ACEA"), of which Ford is a member, made a voluntary commitment in June 2001 to introduce a range of safety measures to improve pedestrian protection with the first phase starting in 2005 and a second phase starting in 2010 Similar commitments were subsequently made by the Japanese and Korean automobile manufacturers associations As a result, over 99% of cars and small vans sold in Europe are covered by industry safety commitments The European Council of Ministers and the European Parliament published a directive in December 2003 and a decision in February 2004, which together lay down detailed technical provisions for enforcement of the industry commitments (i e , the application dates, the types of tests to be conducted the test procedures to be used and the limit values to be achieved)

Motor Vehicle Fuel Economy

U S Requirements Under federal law, vehicles must meet minimum corporate average fuel economy ("CAFE") standards set by NHTSA A manufacturer is subject to potentially substantial civil penalties if it fails to meet the CAFE standard in any model year, after taking into account all available credits for the preceding three model years and expected credits for the three succeeding model years

The law established a passenger car CAFE standard of 27 5 miles per gallon for 1985 and later model years, which NHTSA believes it has the authority to amend to a level it determines to be the maximum feasible level In April 2003, NHTSA issued a final rule increasing the CAFE standard for light trucks to 21 0 miles per gallon for model year 2005, 21 6 miles per gallon for model year 2006, and 22 2 miles per gallon for model year 2007 NHTSA is currently seeking public comment on the possibility of changing the framework of the light truck CAFE standards and/or creating a new vehicle classification scheme, and is working to set light truck standards for the 2008 model year and beyond It is anticipated that NHTSA will also start a rulemaking process to increase CAFE standards for passenger cars in the near future There is renewed interest in CAFE in Congress, and there is some potential for new legislation that avoids the regulatory process and establishes new standards by statute Pressure to increase CAFE standards stems in part from concerns over "greenhouse gas" emissions, which may affect the global climate

In 1999, a petition was filed with the EPA requesting that it regulate carbon dioxide emissions (a greenhouse gas) from motor vehicles under the Clean Air Act, which would have the effect of imposing more stringent fuel economy standards The petitioners filed suit in an effort to compel a formal response from the EPA In August 2003, the EPA denied the petition on the grounds that 1) the Clean Air Act does not authorize the EPA to regulate greenhouse gas emissions, and 2) only NHTSA is authorized to regulate fuel economy under the CAFE law A number of states, cities, and environmental groups filed for review of the EPA's decision in the United States Court of Appeals for the District of Columbia Circuit A coalition of states and industry trade groups, including the Alliance of Automobile Manufacturers, an industry trade group made up of nine leading automotive manufacturers including BMW, DaimlerChrysler, Ford, General Motors and Toyota (the "Alliance"), intervened in support of the EPA's decision The case has been briefed and oral argument is currently scheduled for April 2005

Item 1 Business (Continued)

In September 2004, CARB adopted greenhouse gas emissions regulations for 2009 model year and later cars and trucks, effectively imposing more stringent fuel economy standards than those set by NHTSA These regulations impose standards that are equivalent to a CAFE standard of more than 43 miles per gallon for passenger cars and small trucks, and approximately 27 miles per gallon for light- and medium-duty passenger trucks by model year 2016 The Alliance and individual companies (including Ford) submitted comments opposing the rules and addressing errors in CARB's underlying economic and technical analyses In December 2004, the Alliance filed suit, challenging the regulation on several bases, including that it is preempted by the federal CAFE law Other states are considering similar greenhouse gas legislation (primarily those states that have adopted or are adopting the earlier California emissions regulations)

In general, a continued increase in demand for larger vehicles, coupled with a decline in demand for small and middle-size vehicles, could jeopardize our long-term ability to comply with CAFE standards In addition, if significant increases in CAFE standards for upcoming model years are imposed beyond those presently in effect or proposed, or if the EPA or other agencies regulate carbon dioxide emissions from motor vehicles, we might find it necessary to take various costly actions that could have substantial adverse effects on our sales volume and profits For example, we might have to curtail production of larger, family-size and luxury cars and full-size light trucks, restrict offerings of engines and popular options, and increase market support programs for our most fuel-efficient cars and light trucks

European Requirements The EU is a party to the Kyoto Protocol and has agreed to reduce greenhouse gas emissions by 8% below their 1990 levels during the 2008-2012 period In December 1997, the European Council of Environment Ministers (the "Environment Council") reaffirmed its goal to reduce average carbon dioxide emissions from new cars to 120 grams per kilometer by 2010 (at the latest) and invited European motor vehicle manufacturers to negotiate further with the European Commission on a satisfactory voluntary environmental agreement to help achieve this goal In October 1998, the EU agreed to support an environmental agreement with EAMA (of which Ford is a member) on carbon dioxide emission reductions from new passenger cars (the "Agreement") The Agreement establishes an emission target of 140 grams of carbon dioxide per kilometer for the average of new cars sold in the EU by the EAMA's members in 2008 Average carbon dioxide emissions of 140 grams per kilometer for new passenger cars corresponds to a 25% reduction in average carbon dioxide emissions compared to 1995 To date, the industry has made good progress and has met the interim target for 2003 (165 — 170 grams of carbon dioxide per kilometer)

In 2005, EAMA and the European Commission will review the potential for additional carbon dioxide reductions, with a view to moving further toward the EU's objective of 120 grams of carbon dioxide per kilometer by 2010

In 1995, members of the German Automobile Manufacturers Association ("GAMA") (including Ford Werke GmbH) made a voluntary pledge to increase by 2005 the average fuel economy of new cars sold in Germany by 25% from 1990 levels, to make regular reports on fuel consumption, and to increase industry research and development efforts toward this end GAMA has reported that the industry is on track to meet this pledge

Other European countries are considering other initiatives for reducing carbon dioxide emissions from motor vehicles, including fiscal measures For example, the UK introduced vehicle excise duty and company car taxation based on carbon dioxide emissions in 2001 Taken together, such proposals could have substantial adverse effects on our sales volumes and profits in Europe

Other National Requirements Asian countries have also adopted fuel efficiency targets For example, Japan has fuel efficiency targets for 2010 passenger car and commercial trucks with incentives for early adoption China has adopted targets for 2005 and 2008 and is expected to continue setting new targets to address energy security issues

Item 1 Business (Continued)

Canada has been working with the auto sector to decrease greenhouse gas emissions from automobiles by 2010 With the ratification of the Kyoto Agreement, Canada has been aggressively trying to finalize a voluntary agreement with the auto industry Depending on the negotiations, costly vehicle or market actions may have to be taken to achieve these targets

Recycling End-of-Life Vehicles

U S Requirements Maine has adopted an automotive end-of-life mercury switch collection program Under Maine's law, automobile manufacturers pay for the collection and recycling of these switches Several additional states and the EPA are also looking at manufacturer responsibility for mercury switches Actions associated with this movement could be costly

European Requirements The European Parliament has published a directive imposing an obligation on motor vehicle manufacturers to take back end-of-life vehicles with zero or negative value registered after July 1, 2002, and to take back all other end-of-life vehicles with zero or negative value as of January 1, 2007, with no cost to the last owner The directive also imposes requirements on the proportion of the vehicle that may be disposed of in landfills and the proportion that must be reused or recycled beginning in 2006, and bans the use of certain substances in vehicles beginning with vehicles registered after July 2003 Member states may apply these provisions prior to the dates mentioned above

Presently, there are numerous uncertainties surrounding the form and implementation of the legislation in different member states, especially regarding manufacturers' responsibilities and the resultant expenses that may be incurred As of December 31, 2004, the following member states had adopted legislation to implement the directive The Netherlands, Germany, Belgium, Austria, Spain, Luxemburg, Italy, France, Portugal, Finland, Greece, Denmark and Sweden (Denmark and Sweden both continuing existing systems) The UK has adopted legislation for new vehicles and has legislation pending to address vehicles already sold, while Ireland is expected to complete legislation addressing new and existing vehicles in 2005 Based on the legislation that has been enacted to date and favorable contracts signed with local operators in charge of the return and treatment of vehicles, we have been able to reduce accruals at December 31, 2004 for compliance costs we expect to incur for our existing vehicle populations in these and other countries The directive should not result in significant cash expenditures before 2007

Mobile Air Conditioning

The European Commission adopted a draft regulation in August 2003 to phase out the use of HFC-134a as a refrigerant in mobile air conditioning units The regulation would phase out the use of this refrigerant between 2009 and 2013 and provide credits for the early introduction of more leak-resistant air conditioning systems and alternative refrigerants These requirements may increase the cost of vehicle air conditioning This proposed regulation has been referred to the European Council and the European Parliament for their consideration

European Chemicals Policy

The European Commission adopted a draft regulation in October 2003 for a single system to register, evaluate, and authorize the use of certain chemicals ("REACH") Final adoption of the regulation is anticipated in the 2006-2007 timeframe, followed by a pre-registration phase of three years After that initial phase, a prioritization of all registered substances is likely to be conducted (using criteria yet to be determined) The regulation may accelerate the ban or restriction on use of certain chemicals and materials, which could increase the costs of certain products and processes used to manufacture vehicles and parts

Item 1 Business (Continued)

Pollution Control Costs

During the period 2005 through 2009, we expect to spend approximately $350 million on our North American and European facilities to comply with air and water pollution and hazardous waste control standards, which are now in effect or are scheduled to come into effect Of this total, we estimate spending approximately $100 million in 2005 and $60 million in 2006 Specific environmental expenses are difficult to isolate because expenditures may be made for more than one purpose, making precise classification difficult

EMPLOYMENT DATA

The number of on-roll employees we employed in consolidated entities (including entities we do not control), by business unit, at December 31, 2004 and 2003 was

	2004	2003
Business Unit		
Automotive		
The Americas		
Ford North America	122,877	130,174
Ford South America	12,222	10,102
Ford Europe and PAG		
Ford Europe	69,149	68,340
Premier Automotive Group	50,403	52,347
Ford Asia Pacific and Africa	21,378	17,946
Financial Services		
Ford Motor Credit Company	17,424	19,270
The Hertz Corporation	31,398	29,347
Other Financial Services	13	5
Total	324,864	327,531

As shown in the employment data above, from December 31, 2003 to December 31, 2004, the number of people we employ decreased approximately one percent This decrease primarily reflects capacity reductions and improved manufacturing efficiencies in North America and Europe, offset partially by the addition of newly consolidated European dealerships and our expanding business in South America, Asia Pacific and at Hertz The employment numbers in the table above exclude approximately 17,700 hourly employees of Ford who are assigned to Visteon Corporation ("Visteon"), our largest supplier, and, pursuant to our collective bargaining agreement with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (the "UAW"), remain Ford employees Visteon reimburses us for most of the costs associated with these employees See Item 7 "Management Discussion and Analysis — Outlook" for additional discussion relating to Visteon

Substantially all of the hourly employees in our Automotive operations in the United States are represented by unions and covered by collective bargaining agreements Approximately 99% of these unionized hourly employees in our Automotive segment are represented by the UAW Approximately 3% of our salaried employees are represented by unions Most hourly employees and many non-management salaried employees of our subsidiaries outside the United States also are represented by unions

Item 1 Business (Continued)

Our average labor cost per hour worked for hourly employees of Ford Motor Company m the United States (including employees assigned to Visteon Corporation), excluding subsidiaries, was as follows for the listed years

	2004	2003
Earnings	$ 30 93	$30 27
Benefits	32 00	31 15
Total	$ 62 93	$61 42

We have entered into collective bargaining agreements with the UAW and the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW") Among other things, our agreements with the UAW and CAW provide for guaranteed wage and benefit levels throughout their terms and provide for significant employment security As a practical matter, these agreements may restrict our ability to eliminate product lines, close plants, and divest businesses Our agreement with the UAW is scheduled to expire on September 14, 2007, and our agreement with the CAW is scheduled to expire on September 20, 2005 Historically, negotiation of new collective bargaining agreements with the UAW and CAW have typically resulted in increases in wages and benefits, including retirement benefits, and some of these increases typically have been provided to salaried employees as well

In 2004, we negotiated new Ford agreements with labor unions in Argentina, Brazil, Britain, France, Germany, Mexico, Southern Africa, Taiwan, Thailand, Venezuela, and Vietnam We also negotiated new collective bargaining agreements to cover employees at our Jaguar (Britain), Land Rover (Britain) and Volvo (Sweden) affiliates

We are or will be negotiating new Ford collective bargaining agreements with labor unions in Argentina, Brazil, Canada, France, Mexico, Spain, Taiwan, Thailand, and Vietnam where current agreements will expire in 2005 We will also be negotiating new collective bargaining agreements to cover employees at our Aston Martin (Britain), Land Rover (Britain) and Volvo (Belgium and Sweden) affiliates in 2005

In recent years, we have not had significant work stoppages at our facilities, but they have occurred in some of our suppliers' facilities A work stoppage could occur as a result of disputes under our collective bargaining agreements with labor unions or in connection with negotiations of new collective bargaining agreements, which, if protracted, could adversely affect our business and results of operation Work stoppages at supplier facilities for labor or other reasons could have similar consequences if alternate sources of components are not readily available Our Canadian operations, which are covered by the CAW agreement expiring in September 2005, include facilities that are the primary source of engines for many of our truck and sport utility models, which are among our most profitable models Therefore, any protracted work stoppage at our Canadian facilities in connection with the negotiation of a new collective bargaining agreement with the CAW could have a substantial adverse effect on our business

ENGINEERING, RESEARCH AND DEVELOPMENT

We conduct engineering, research and development primarily to improve the performance (including fuel efficiency), safety and customer satisfaction of our products, and to develop new products We also have staffs of scientists who engage in basic research We maintain extensive engineering, research and design centers for these purposes, including large centers in Dearborn, Michigan, Dunton, Gaydon and Whitley, England, Gothenburg, Sweden, and Aachen and Merkenich, Germany Most of our engineering research and development relates to our Automotive sector In general, our engineering activities that do not involve basic research or product development, such as manufacturing engineermg, are excluded from our engineering, research and development charges discussed below

Item 1 Business (Continued)

During the last three years, we recorded charges to our consolidated income for engineering, research and development we sponsored in the following amounts $7 4 billion (2004), $7 3 billion (2003), and $7 5 billion (2002) Any customer-sponsored research and development activities that we conduct are not material

ITEM 2. *Properties*

Our principal properties include manufacturing and assembly facilities, distribution centers, warehouses, sales or administrative offices and engineering centers

We own substantially all of our U S manufacturing and assembly facilities These facilities are situated in various sections of the country and include assembly plants, engine plants, casting plants, metal stamping plants, and transmission plants Most of our distribution centers are leased (approximately 38% of our total square footage is owned) A substantial amount of our warehousing is provided by third party providers under service contracts Because the facilities provided pursuant to third party service contracts need not be dedicated exclusively or even primarily to use by Ford, these spaces are not included in the number of distribution centers/warehouses listed in the table below All of the warehouses that we operate are leased, although many of our manufacturing and assembly facilities contain some warehousing space Substantially all of our sales offices are leased space Approximately 92% of the total square footage of our engineering centers and our supplementary research and development space is owned by us

In addition, we maintain and operate manufacturing plants, assembly facilities, parts distribution centers, and engineering centers outside the United States We own substantially all of the manufacturing plants, assembly facilities, and engineering centers The majority of our parts distribution centers outside of the United States are either leased or provided by vendors under service contracts As in the United States, space provided by vendors under service contracts need not be dedicated exclusively or even primarily to use by Ford, and is not included in the number of distribution centers/warehouses listed in the table below

The total number of plants, distribution centers/warehouses, engineering and research and development sites, and sales offices used by our Automotive segments are shown below

Segment	Plants	Distribution Centers/Warehouses	Engineering, Research/Development	Sales Offices
The Americas	51	37	43	41
Ford Europe and PAG	40	9	8	27
Ford Asia Pacific and Africa/ Mazda	12	0	2	5
Total	103	46	53	73

Included in the number of plants used by the Ford Europe and PAG and Ford Asia Pacific and Africa/ Mazda segments shown above are several plants that are not operated directly by us, but rather by consolidated joint ventures that operate plants that support our Automotive sector The following are the most significant of these consolidated joint ventures and the number of plants they own

- *Ford Otosan* — a joint venture in Turkey between Ford (41% partner), the Koc Group of Turkey (41% partner) and public investors (18%) that is our single source supplier of the Ford Transit Connect vehicle and our sole distributor of Ford vehicles in Turkey In addition, Ford Otosan makes the Ford Transit van and the Cargo truck for the Turkish and export markets, and certain engines and transmissions under license This joint venture owns and operates two plants in Turkey

- *Getrag Ford Transmissions GmbH* — a 50/50 joint venture with Getrag Deutsche Venture GmbH & Co Kg i G , a German company, to which we transferred our European manual

Item 2 Properties (Continued)

transmission operations in Halewood, England, Cologne, Germany and Bordeaux, France In 2004, Volvo Car Corporation ("Volvo Cars") agreed to transfer its manual transmission operations from its Koping, Sweden plant to this joint venture The Getrag joint venture produces manual transmissions for our operations in Europe (Ford Europe and PAG) Ford currently supplies most of the hourly and salaried labor requirements of the operations transferred to this Getrag joint venture Ford employees who worked at the manual transmission operations that were transferred at the time of the formation of the joint venture are assigned to the joint venture by Ford In the event of surplus labor at the joint venture, Ford employees assigned to the joint venture may return to Ford Employees hired in the future to work in these operations will be employed directly by the joint venture Getrag Ford Transmissions GmbH reimburses Ford for the full cost of the hourly and salaried labor supplied by Ford This joint venture operates or will operate three plants

- *Getrag All Wheel Drive AB* — a joint venture in Sweden between Getrag Dana Holding GmbH ("Getrag/ Dana") (60% partner) and Volvo Cars (40% partner) In January 2004, Volvo Cars entered into agreements with Getrag/ Dana to transfer Volvo Cars' plant in Koping, Sweden to this joint venture The joint venture produces all-wheel drive components and, for a time, chassis components as well As noted above, the manual transmission operations at the Köping plant will be transferred to Getrag Ford Transmissions GmbH The hourly and salaried employees at the plant have become employees of the joint venture

- *TEKFOR Cologne GmbH* — a 50/50 joint venture with Neumayer Holding GmbH, a German company, to which Ford Werke GmbH transferred the operations of the Ford forge in Cologne The joint venture produces forged components, primarily for transmissions and chassis, for use in Ford vehicles and sale to third parties Those Ford employees that worked at the Cologne Forge Plant at the time of the formation of the joint venture are assigned to the joint venture by Ford and remain employees of Ford All new employees hired to work at the forge will be hired as employees of the joint venture In the event of surplus labor at the joint venture, Ford employees assigned to the joint venture may return to Ford TEKFOR Cologne GmbH reimburses Ford for full cost of the Ford employees assigned to the joint venture This joint venture operates one plant

- *Pininfarina Sverige, AB* — a joint venture between Volvo Cars (40% partner) and Pininfarina, S p A (60% partner) In September 2003, Volvo Cars entered into agreements with Pininfarina to establish this joint venture for the engineering and manufacture of niche vehicles, starting with a new, small convertible Volvo Cars has outsourced the design and engineering to Pininfarina The joint venture will produce the car at the Uddevalla Plant in Sweden, which was transferred from Volvo Cars to the joint venture and is the joint venture's only plant

- *Ford Vietnam Limited* — a joint venture between Ford (75% partner) and Song Cong Diesel (25% partner) Ford Vietnam assembles and distributes several Ford vehicles in Vietnam, including Escape, Laser, Mondeo, Ranger and Transit Ford Vietnam is planning to launch Ford Everest and Ford Focus in 2005 This joint venture operates one plant

- *Ford India Private Limited* ("Ford India") — a joint venture between Ford (84% partner) and Mahindra & Mahindra Limited (16% partner) Ford India assembles and distributes the Ford Ikon and Endeavour in India, Nepal and Bangladesh Ford India also imports and distributes the Mondeo Ikon kits are exported to Mexico, South Africa and China This joint venture operates one plant

- *Ford Lio Ho Motor Company Ltd* ("FLH") — a joint venture in Taiwan among Ford (70% partner), the Lio Ho Group (25% partner) and individual shareholders (5% ownership in aggregate) that assembles a variety of Ford and Mazda vehicles sourced from Ford, as well

Item 2 Properties (Continued)

as Mazda and Suzuki In addition to domestic assembly, FLH also has local product development capability to modify vehicle designs for local needs, and imports Ford-brand built-up vehicles from Europe and the United States This joint venture operates one plant

In addition to the plants that we operate directly or that are operated by consolidated joint ventures, additional plants that support our Automotive sector are operated by other, non-consolidated joint ventures of which we are a partner These additional plants are not included in the number of plants shown in the table above The most significant of these joint ventures are

- *AutoAlliance International ("AAI")* — a 50/50 joint venture with Mazda (of which we own 33 4%), which owns and operates as its principal business an automobile vehicle assembly plant in Flat Rock, Michigan AAI currently produces the Mazda6 vehicle and the new Ford Mustang Ford supplies all of the hourly and substantially all of the salaried labor requirements to AAI, and AAI reimburses Ford for the full cost of that labor

- *AutoAlliance (Thailand) ("AAT")* — a joint venture among Ford (50%), Mazda (45%) and a Thai affiliate of Mazda's (5%), which owns and operates a manufacturing plant in Rayong, Thailand AAT produces the Ford Everest, Ford Ranger and Mazda B-Series pickup trucks for the Thai market and for export to over 100 countries worldwide (other than North America), in both built-up and kit form

- *Blue Diamond Truck, S de RL de CV* — a joint venture between Ford (49% partner) and International Truck and Engine Corporation (51% partner), a subsidiary of Navistar International Corporation ("Navistar") Blue Diamond Truck develops and manufactures selected medium and light commercial trucks in Mexico and sells the vehicles to Ford and Navistar for their own independent distribution Blue Diamond Truck manufactures Ford F-650/750 medium-duty commercial trucks that are sold in the United States and Canada, and Navistar medium-duty commercial trucks that are sold in Mexico Production of a low-cab-forward, light-/medium-duty commercial truck for each of Ford and Navistar will commence in 2005

- *Blue Diamond Parts, LLC* — a joint venture between Ford (51% partner) and Navistar (49% partner) Blue Diamond Parts manages sourcing, merchandising, and distribution of various replacement parts

- *Tenedora Nemak, S A de C V* — a joint venture between Ford (15% partner) and a subsidiary of Mexican conglomerate Alfa S A de C V (85% partner), which owns and operates, among other facilities, our former Canadian castings operations, and supplies engine blocks and heads to several of our engine plants Ford supplies a portion of the hourly labor requirements for the Canadian plants, for which it is fully reimbursed by the joint venture

- *Changan Ford Automobile Corporation ("Changan Ford")* — a 50/50 joint venture between Ford and the Chongqing Changan Automobile Co, Ltd Changan Ford produces and distributes in China the Ford Fiesta and Mondeo, and is planning to launch the Ford Focus and Mazda3 vehicles in 2005 Changan Ford has filed an application with the Chinese government for permission to set up a new vehicle manufacturing plant in the Chinese city of Nanjing

- *Jiangling Motors Corporation* — a publicly traded company in China owned by Ford (30% shareholder), the Jiangling Motors Company Group (41% shareholder) and public investors (29%) that assembles the Ford Transit Van and other non-Ford vehicles for distribution in China

- *Ford Malaysia Sdn Bhd* — a joint venture between Ford (49% partner) and Tractors Malaysia, a publicly-traded subsidiary of Sime Darby (51% partner) Ford Malaysia distributes

Item 2 Properties (Continued)

Ford vehicles assembled by its wholly-owned subsidiary AMI, an assembly company, including Econovan, Escape, Everest, Laser and Ranger

The furniture, equipment and other physical property owned by our Financial Services operations are not material in relation to their total assets

The facilities owned or leased by us or our subsidiaries and joint ventures described above are, in the opinion of management, suitable and adequate for the manufacture and assembly of our products

ITEM 3. ***Legal Proceedings***

OVERVIEW

Various legal actions, governmental investigations and proceedings and claims are pending or may be instituted or asserted in the future against us and our subsidiaries, including, but not limited to, those arising out of the following alleged defects in our products, governmental regulations covering safety, emissions, and fuel economy, financial services, employment-related matters, dealer, supplier, and other contractual relationships, intellectual property rights, product warranties, environmental matters, and shareholder matters Some of the pending legal actions are, or purport to be, class actions Some of the foregoing matters involve or may involve compensatory, punitive or antitrust or other multiplied damage claims in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions or other relief that, if granted, would require very large expenditures We regularly evaluate the expected outcome of product liability litigation and other litigation matters We have accrued expenses for probable losses on product liability matters, in the aggregate, based on an analysis of historical litigation payouts and trends Expenses also have been accrued for other litigation where losses are deemed probable and reasonably estimable These accruals are reflected in our financial statements

Following is a discussion of our significant pending legal proceedings

PRODUCT LIABILITY MATTERS

Asbestos Matters Asbestos was used in brakes, clutches and other automotive components dating from the early 1900s Along with other vehicle manufacturers, we have been the target of asbestos litigation and, as a result, we are a defendant in various actions for injuries claimed to have resulted from alleged contact with certain Ford parts and other products containing asbestos Plaintiffs in these personal injury cases allege various health problems as a result of asbestos exposure, either from (i) component parts found in older vehicles (ii) insulation or other asbestos products in our facilities or (iii) asbestos aboard our former maritime fleet The majority of these cases have been filed in the state courts

Most of the asbestos litigation we face involves mechanics or other individuals who have worked on the brakes of our vehicles over the years Also, in most asbestos litigation we are not the sole defendant We believe we are being more aggressively targeted in asbestos suits because many previously targeted companies have filed for bankruptcy We are prepared to defend these asbestos-related cases and, with respect to the cases alleging exposure from our brakes, believe that the scientific evidence confirms our long-standing position that mechanics and others are not at an increased risk of asbestos-related disease as a result of exposure to the type of asbestos formerly used in the brakes on our vehicles

The extent of our financial exposure to asbestos litigation remains very difficult to estimate The majority of our asbestos cases do not specify a dollar amount for damages, and in many of the other cases the dollar amount specified is the jurisdictional minimum The vast majority of these cases involve multiple defendants, with the number in some cases exceeding one hundred Many of these

Item 3 Legal Proceedings (Continued)

cases involve multiple plaintiffs, and we are often unable to tell from the pleadings which of the plaintiffs are making claims against us (as opposed to other defendants) Our annual payout and related defense costs in asbestos cases had been increasing between 1999 and 2003 In 2004, these costs were about the same as in 2003, however, they may become substantial in the future

The United States Congress continues to consider proposals to reform asbestos litigation The lead proposal would create a trust fund from which eligible asbestos claimants would be compensated and would preclude, during the life of the trust, litigation in the United States based on exposure to asbestos The trust fund would be funded by asbestos defendants (including us) and the insurance industry These funds would be used to pay eligible claimants (i e , those who satisfy specific medical criteria and can adequately demonstrate occupational exposure to asbestos) according to a specified schedule If legislation is enacted creating such a trust fund, we would likely be required to make substantial contributions to the fund over a specified period of time, resulting in our incurring a charge in the amount of the present value of such anticipated contributions in the period in which the legislation becomes effective We cannot predict whether or in what form the legislation will be enacted or the costs associated with such enactment

ENVIRONMENTAL MATTERS

General We have received notices under various federal and state environmental laws that we (along with others) may be a potentially responsible party for the costs associated with remediating numerous hazardous substance storage, recycling or disposal sites in many states and, in some instances, for natural resource damages We also may have been a generator of hazardous substances at a number of other sites The amount of any such costs or damages for which we may be held responsible could be substantial The contingent losses that we expect to incur in connection with many of these sites have been accrued and those losses are reflected in our financial statements in accordance with generally accepted accounting principles However, for many sites, the remediation costs and other damages for which we ultimately may be responsible are not reasonably estimable because of uncertainties with respect to factors such as our connection to the site or to materials there, the involvement of other potentially responsible parties, the application of laws and other standards or regulations, site conditions, and the nature and scope of investigations, studies, and remediation to be undertaken (including the technologies to be required and the extent, duration, and success of remediation) As a result, we are unable to determine or reasonably estimate the amount of costs or other damages for which we are potentially responsible in connection with these sites, although that total could be substantial

St Louis Assembly Plant Enforcement Action The Department of Justice has advised us that the United States Environmental Protection Agency ("EPA") has referred a matter regarding refrigerants used in several types of process equipment at our St Louis Assembly Plant to it for civil enforcement The referral is based on their belief that the plant did not comply with all of the Clean Air Act's recordkeeping, testing, and repair requirements related to process equipment with regulated refrigerants It is likely that the Department of Justice will seek monetary sanctions of $100,000 or more for these alleged violations

Chicago Assembly Plant Notice of Violation Regarding Waste Handling On August 23, 2004, the EPA, Region Five, issued a letter notifying Ford of its intent to file an administrative complaint for civil penalties based on an initial determination that Ford's Chicago Assembly Plant violated certain requirements of the Resource Conservation and Recovery Act The EPA's allegations arise out of an EPA inspection of the Chicago Assembly Plant conducted in November 2002 The violations alleged by EPA include improper hazardous waste handling and storage, improper waste characterizations and manifesting, and failure to conduct and record certain tank and storage area inspections Ford and EPA met to discuss this matter in the fourth quarter of 2004 It is reasonably possible that the EPA could seek monetary sanctions of $100,000 or more for these alleged violations

Item 3 Legal Proceedings (Continued)

CLASS ACTIONS

The following are actions filed against us on behalf of individual plaintiffs and all others similarly situated (i e , purported class actions) In light of the fact that very few of the purported class actions filed against us in the past have ever been certified by the courts as class actions, the actions listed below are limited to those that (i) have been certified as a class action by a court of competent jurisdiction (and any additional purported class actions that raise allegations substantially similar to a certified case) and (ii) if resolved unfavorably to the Company, would likely involve a significant cost

Firestone Class Actions A state court in Illinois has certified a statewide class of purchasers and lessees of 1991-2001 Ford Explorers equipped with Firestone ATX or Wilderness tires who have not experienced any problems with either the tires or the vehicles *(Rowan v Ford Motor Company)* The complaint alleges that Explorers are unstable and that the Firestone tires are defective Plaintiffs claim that the value of the vehicles was diminished because of the alleged defects and seek unspecified actual and compensatory damages and other relief Trial is currently scheduled for July 11, 2005, but we expect the trial will be rescheduled for late 2005 or early 2006

In February 2005, a state court in California certified a statewide class of purchasers and lessees of 1990-2000 Ford Explorers *(Gray v Ford Motor Company* and four coordinated cases) The complaint alleges that Explorers are unstable and that Ford concealed information about them Plaintiffs seek relief similar to that sought in *Rowan* We will seek appellate review of the class certification order

There are also 19 purported statewide class actions pending in several states, raising allegations similar to those raised in *Rowan*, and seeking similar relief Bridgestone-Firestone, Inc ("Firestone") is a co-defendant in most of these cases, including *Rowan* Firestone has agreed to settle all claims against it in these cases (including *Rowan*) Under the terms of the settlement agreement, Firestone would implement manufacturing improvements and fund a consumer awareness program relating to tire use and maintenance Firestone's settlement would also require plaintiffs to dismiss all class action claims against Ford that are based on alleged defects in the tires A Texas trial court has approved the Firestone settlement, but that ruling is currently on appeal to the Texas Court of Appeals If the Firestone settlement is approved on appeal, the only remaining claims against Ford in *Rowan* and the purported class actions would be allegations based on the Explorer's alleged rollover propensity

Paint Class Actions A state court in Madison County, Illinois certified a nationwide class of owners of 1989-96 model year vehicles that have experienced paint peeling Plaintiffs contend that their paint is defective in two respects First, they allege that, because Ford did not use spray primer between the high-build electro coat ("HBEC") and the color coat in some models, the color coat lost adhesion to the HBEC after extended exposure to ultraviolet radiation from sunlight Second, they allege that the clearcoat on some models deteriorated prematurely Plaintiffs seek unspecified compensatory damages (in an amount to cover the cost of repainting their vehicles and to compensate for alleged diminution in value), punitive damages, attorneys' fees and interest Trial is currently scheduled for June 2006

Crown Victoria Police Interceptor Class Actions State courts in Illinois, Florida and Louisiana have certified statewide classes of state and local governments that purchased or leased Crown Victoria Police Interceptors The complaints allege that the vehicles are defective in that fires can occur when the vehicles are struck in the rear at high speed, and seek modifications to the fuel systems and other relief, including punitive damages Trial in the Illinois case during 2004 *(St Clair County v Ford Motor Company)* resulted in a defense verdict on all counts submitted to the jury, three counts remain pending for decision by the judge

There are also 16 purported statewide class actions pending in several states which claim to represent state and local governments that purchased or leased Crown Victoria Police Interceptors,

Item 3 Legal Proceedings (Continued)

as well as seven purported class actions relating to non-police Crown Victoria vehicles These suits raise allegations similar to those raised in *St Clair County*, and seek similar relief

Hydroboost Truck Brake Class Action A state court in Oklahoma has certified a nationwide class of all purchasers of 1999-2002 F-250, F-350, F-450, and F-550 Ford Super Duty Trucks and 2002 Excursions with hydroboost hydraulic braking systems The Oklahoma Court of Appeals has affirmed the order, we will seek review by the Oklahoma Supreme Court The complaint alleges that these trucks are unsafe because they suffer diminished power assist to the steering when the driver is simultaneously braking and steering The complaint alleges breach of warranty and fraud, and seeks the cost of retrofitting the trucks to eliminate the alleged danger, compensation for diminished resale value, and other amounts NHTSA investigated a similar issue and closed the investigation, finding that "diminished steering assist while braking is present" in these trucks, but that the "associated injury and property damage incidents are so rare that they do not present a risk to vehicle safety "

OTHER MATTERS

SEC Pension and Post-Employment Benefit Accounting Inquiry On October 14, 2004, the Division of Enforcement of the Securities and Exchange Commission ("SEC") notified Ford that it was conducting an inquiry into the methodology used to account for pensions and other post-employment benefits We are one of several companies to receive a request for information as part of this inquiry We are cooperating with the SEC in providing the information requested

SEC Ford Money Market Account Inquiry In January 2004, the SEC requested information from Ford Credit relating to the offering of debt securities under Ford Credit's Ford Money Market Account ("FMMA") program Under the FMMA program, Ford Credit offers floating rate variable denomination demand debt securities to individual investors Following the submission of information, the SEC Staff and Ford Credit have been in discussions about resolving concerns the Staff identified regarding the use of certain marketing and solicitation materials In March 2005, Ford Credit made a settlement offer, with Ford Credit neither admitting nor denying the Staff's allegations, which included the issuance of a Cease and Desist Order requiring that Ford Credit comply with Section 5 of the Securities Act of 1933 in connection with all marketing and solicitation materials The terms of the tentative settlement also require Ford Credit to undertake to discontinue or change certain aspects of its marketing practices relating to the FMMA program and to pay the SEC approximately $760,000 in disgorgement (based on cost savings relating to those practices) The SEC Staff has indicated that it will recommend this settlement offer to the Commission The tentative settlement is subject to approval by the full Commission of the SEC

ITEM 4. *Submission of Matters to a Vote of Security Holders*

Not required

ITEM 4A. *Executive Officers of Ford*

Our executive officers and their positions and ages at March 1, 2005 unless otherwise noted, are shown in the table below

Name	Position	Present Position Held Since	Age
William Clay Ford, Jr [(a)]	Chairman of the Board and Chief Executive Officer	October 2001	47
James J Padilla[(b)]	President and Chief Operating Officer	February 2005	58
Mark Fields	Executive Vice President (President, Ford Europe and PAG)	April 2004	44
Donat R Leclair	Executive Vice President and Chief Financial Officer	August 2003	53
Mark A Schulz	Executive Vice President (President, Ford Asia Pacific and Africa)	April 2004	52
Greg C Smith	Executive Vice President (President, The Americas)	April 2004	53
Michael E Bannister	Group Vice President (Chairman and Chief Executive Officer, Ford Motor Credit Company)	April 2004	55
Lewis W K Booth	Group Vice President (Chairman and Chief Executive Officer, Ford Europe)	September 2003	56
Earl J Hesterberg	Group Vice President — North America Marketing, Sales and Service	September 2004	51
Roman J Krygier	Group Vice President — Global Manufacturing	November 2001	62
Joe W Laymon	Group Vice President — Corporate Human Resources and Labor Affairs	October 2003	52
Philip R Martens	Group Vice President — Product Creation	October 2003	44
J C Mays	Group Vice President and Chief Creative Officer	August 2003	50
Ziad S Ojakli	Group Vice President — Corporate Affairs	January 2004	37
Richard Parry-Jones	Group Vice President — Chief Technical Officer	August 2001	53
Anne Stevens	Group Vice President — Canada, Mexico and South America	October 2003	56
James C Gouin	Vice President and Controller	August 2003	45
Dennis E Ross	Vice President and General Counsel	October 2000	54

(a) Also Chair of the Environmental and Public Policy Committee and the Office of the Chairman and Chief Executive Committee and a member of the Finance Committee of the Board of Directors

(b) Also a member of the Office of the Chairman and Chief Executive Committee of the Board of Directors

All of the above officers, except those noted below, have been employed by Ford or its subsidiaries in one or more capacities during the past five years Described below are the positions (other than those with Ford or its subsidiaries) held by those officers who have not been with Ford or its subsidiaries for five years

- Mr Laymon was Vice President, US and Canada Region and Director, Human Resources, Worldwide Regions, for Eastman Kodak Company from 1996 to 2000

- Mr Ojakli served as Principal Deputy for Legislative Affairs for President Bush from December 2002 to 2003, and was Deputy Assistant to the President from 2001 to 2002 Prior to that, from 1998 to 2000, he was the Policy Director and Chief of Staff to the Senate Republican Conference Secretary

Under Ford's By-Laws, the executive officers are elected by the Board of Directors at the Annual Meeting of the Board of Directors held for this purpose Each officer is elected to hold office until his or her successor is chosen or as otherwise provided in the By-Laws

PART II

ITEM 5. ***Market for Ford's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our Common Stock is listed on the New York and Pacific Coast Stock Exchanges in the United States and on certain stock exchanges in Belgium, France, Switzerland and the United Kingdom

The table below shows the high and low sales prices for our Common Stock and the dividends we paid per share of Common and Class B Stock for each quarterly period in 2004 and 2003

	2004				2003			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common Stock price per share*								
High	$17 34	$16 48	$15 77	$15 00	$10 80	$11 71	$12 53	$17 33
Low	12 75	13 00	1 3 61	1 2 61	6 58	7 30	10 43	1 0 41
Dividends per share of Common and Class B Stock	$ 0 10	$ 0 10	$ 0 10	$0 10	$0 10	$ 0 10	$ 0 10	$ 0 10

* New York Stock Exchange composite interday prices as listed in the price history database available at www NYSEnet com

As of February 24, 2005, stockholders of record of Ford included 188,047 holders of Common Stock (which number does not include 9,603 former holders of old Ford Common Stock who have not yet tendered their shares pursuant to our recapitalization, known as the Value Enhancement Plan, which became effective on August 9, 2000) and 103 holders of Class B Stock

During the fourth quarter of 2004, we purchased shares of our Common Stock as follows

Period	Total Number of Shares Purchased*	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
Oct 1, 2004 through Oct 31, 2004	1,295,524	$ 13 53	0	No publicly announced repurchase program in place
Nov 1, 2004 through Nov 30, 2004	1,609,341	$ 14 01	0	No publicly announced repurchase program in place
Dec 1, 2004 through Dec 31, 2004	2,080,546	$ 14 38	0	No publicly announced repurchase program in place
Total	4,985,411	$ 14 04	0	No publicly announced repurchase program in place

* We currently do not have a publicly announced repurchase program in place Of the 4,985,411 shares purchased, 4,982,254 shares were purchased from the Ford Motor Company Savings and Stock Investment Plan for Salaried Employees ("SSIP") and the Tax Efficient Savings Plan for Hourly Employees ("TESPHE") Shares are generally purchased from the SSIP and TESPHE when participants in those plans elect to sell units in the Ford Stock Fund upon retirement, upon termination of employment with the Company, related to an in-service distribution, or to fund a loan against an existing account balance in the Ford Stock Fund Shares are not purchased from these plans when a participant transfers account balances out of the Ford Stock Fund and into another investment option under the plans The remaining

shares were acquired from our employees in accordance with our various compensation plans as a result of required share withholdings to pay income taxes with respect to (i) the lapse of restrictions on restricted stock, (ii) the issuance of stock as a result of the conversion of restricted stock equivalents awarded to our executives or directors, or to pay the exercise price and related income taxes with respect to the exercise of a stock option

ITEM 6. *Selected Financial Data*

The following table sets forth selected financial data concerning Ford for each of the last five years (dollar amounts in millions, except per share amounts) Prior-year amounts have been reclassified to conform to current year presentation

	2004	2003	2002	2001	2000
SUMMARY OF OPERATIONS					
Total Company					
Sales and revenues	$ 171,652	$ 164,338	$ 162,258	$ 160,654	$ 169,298
Income/(loss) before income taxes	$ 4,853	$ 1,339	$ 1,064	$ (7,325)	$ 8,387
Provision/(credit) for income taxes	937	123	342	(2,064)	2,750
Minority interests in net income of subsidiaries	282	314	367	24	127
Income/(loss) from continuing operations	3,634	902	355	(5,285)	5,510
Income/(loss) from discontinued operations	(147)	(143)	(333)	(168)	(2,043)
Cumulative effects of change in accounting principle	—	(264)	(1,002)	—	—
Net income/(loss)	$ 3,487	$ 495	$ (980)	$ (5,453)	$ 3,467
Automotive sector					
Sales	$ 147,134	$ 138,260	$ 134,120	$ 130,601	$ 140,621
Operating income/(loss)	(177)	(1,556)	(604)	(7,471)	5,276
Income/(loss) before income taxes	(155)	(1,908)	(1,054)	(8,762)	5,421
Financial Services sector					
Revenues	$ 24,518	$ 26,078	$ 28,138	$ 30,053	$ 28,677
Income/(loss) before income taxes	5,008	3,247	2,118	1,437	2,966
Total Company Data Per Share of Common and Class B Stock (a)					
Basic					
Income/(loss) from continuing operations	$ 1 99	$ 0 49	$ 0 19	$ (2 93)	$ 3 73
Income/(loss) from discontinued operations	(0 08)	(0 08)	(0 19)	(0 09)	(1 39)
Cumulative effects of change in accounting principle	—	(0 14)	(0 55)	—	—
Net income/(loss)	$ 1 91	$ 0 27	$ (0 55)	$ (3 02)	$ 2 34
Diluted					
Income/(loss) from continuing operations	$ 1 80	$ 0 49	$ 0 19	$ (2 93)	$ 3 66
Income/(loss) from discontinued/held-for-sale operations	(0 07)	(0 08)	(0 18)	(0 09)	(1 36)
Cumulative effects of change in accounting principle	—	(0 14)	(0 55)	—	—
Net mcome/(loss)	$ 1 73	$ 0 27	$ (0 54)	$ (3 02)	$ 2 30
Cash dividends (b)	$ 0 40	$ 0 40	$ 0 40	$ 1 05	$ 1 80
Common stock price range (NYSE Composite)					
High	$ 17 34	$ 17 33	$ 18 23	$ 31 42	$ 31 46
Low	12 61	6 58	6 90	14 70	21 69
Average number of shares of Common and Class B stock outstanding (in millions)	1,830	1,832	1,819	1,820	1,483
SECTOR BALANCE SHEET DATA AT YEAR-END					
Assets					
Automotive sector	$ 116,422	$ 115,444	$ 102,770	$ 88,319	$ 94,312
Financial Services sector	188,919	195,279	187,432	188,224	189,078
Total assets	$ 305,341	$ 310,723	$ 290,202	$ 276,543	$ 283,390
Long-term Debt					
Automotive sector	$ 17,458	$ 18,987	$ 13,607	$ 13,467	$ 11,769
Financial Services sector	89,082	100,764	106,505	106,741	86,877
Total long-term debt	$ 106,540	$ 119,751	$ 120,112	$ 120,208	$ 98,646
Stockholders' Equity	$ 16,045	$ 11,651	$ 5,590	$ 7,786	$ 18,610

(a) Share data have been adjusted to reflect stock dividends and stock splits Common stock price range (NYSE Composite) has been adjusted to reflect the Visteon spin-off, a recapitalization known as our Value Enhancement Plan, and The Associates spin-off

(b) Adjusted for the Value Enhancement Plan effected in August 2000, cash dividends were $1 16 per share in 2000

ITEM 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

OVERVIEW

Generation of Revenue, Income and Cash

Our Automotive sector's revenue, income and cash are generated primarily from sales of vehicles to our dealers and distributors (i e , our customers) Vehicles we produce generally are subject to firm orders from our customers and generally are deemed sold (with the proceeds from such sale recognized in revenue) immediately after they are produced and shipped to our customers This is not the case, however, with respect to vehicles produced for sale to daily rental car companies that are subject to a guaranteed repurchase option or vehicles produced for use in our own fleet (including management evaluation vehicles) Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option are accounted for as operating leases, with lease revenue and profits recognized over the term of the lease When we sell the vehicle at auction, we recognize a gain or loss on the difference, if any, between actual auction value and the projected auction value Therefore, except for the impact of the daily rental units sold subject to a guaranteed repurchase option and those units placed into our own fleet, vehicle production is closely linked with unit sales and revenue from such sales

Most of the vehicles sold by us to our dealers and distributors are financed at wholesale by Ford Credit Upon Ford Credit originating the wholesale receivable related to a dealer's purchase of a vehicle, Ford Credit pays cash to the relevant legal entity in our Automotive sector in payment of the dealer's obligation for the purchase price of the vehicle The dealer then pays off the wholesale finance receivable when it sells the vehicle to a retail customer (See Note 1 of the Notes to the Financial Statements)

Our Financial Services sector's revenue is generated primarily from interest on finance receivables, net of certain deferred loan origination costs that are included as a reduction of financing revenue, and such revenue is recognized over the term of the receivable using the interest method Also, revenue from operating leases, net of certain deferred origination costs, is recognized on a straight-line basis over the term of the lease Income is generated to the extent revenues exceed expenses, most of which are interest and operating expenses

Transactions between the Automotive and Financial Services sectors occur in the ordinary course of business For example, Ford Credit receives interest supplements and other support cost payments from the Automotive sector in connection with special vehicle financing and leasing programs that it sponsors Ford Credit records these payments as revenue over the term of the related finance receivable or operating lease The Automotive sector records the estimated costs of marketing incentives, including dealer and retail customer cash payments (e g , rebates) and costs of special financing and leasing programs, as a reduction to revenue at the later of the date the related vehicle sales are recorded or at the date the incentive program is both approved and communicated

Key Economic Factors and Trends Affecting Automotive Industry

Excess Capacity According to CSM Worldwide, an automotive research firm, in 2004 the estimated automotive industry global production capacity for light vehicles (about 74 million units) significantly exceeded global production of cars and trucks (about 60 million units) In North America and Europe, the two regions where the majority of revenue and profits are earned in the industry, excess capacity was an estimated 17% and 13%, respectively CSM Worldwide projects that excess capacity conditions could continue for several more years

Pricing Pressure Excess capacity, coupled with a proliferation of new products being introduced in key segments by the industry, will keep pressure on manufacturers' ability to increase prices on their products In addition, the incremental new capacity in the United States by foreign manufacturers (so-called "transplants") in recent years has contributed, and is likely to continue to contribute, to the severe pricing pressure in that market In the United States, the reduction of real

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

prices for similarly contented vehicles has become more pronounced since the late 1990s, and we expect that a challenging pricing environment will continue for some time to come In Europe, the automotive industry also has experienced intense pricing pressure for several years for the same reasons discussed above, which has been exacerbated in recent years as a result of the Block Exemption Regulation discussed above in Item 1 "Business — Automotive Sector — Europe"

Consumer Spending Trends We expect, however, that a decline in, or the inability to increase, vehicle prices could be offset by the spending habits of consumers and their propensity to purchase over time higher-end, more expensive vehicles and/or vehicles with more features Over the next decade, in the United States and in other mature markets, we expect that growth in spending on vehicle mix and content will grow at least as fast as real GDP per capita The benefits of this to revenue growth in the automotive industry are significant In the United States, for example, consumers in the highest income bracket are buying more often and are more frequently buying upscale

Although growth in vehicle unit sales (i e , volume) will be greatest in emerging markets in the next decade, we expect that the mature automotive markets (e g , North America, Western Europe and Japan) will continue to be the source of a substantial majority of global industry revenues over the next decade We also expect that the North American market will continue as the single largest source of revenue for the automotive industry in the world in the next decade

Health Care Expenses As a provider of health care coverage to our employees, retirees and their dependents, primarily in the United States, we have experienced significant health care inflation in the last few years In 2004, our health care expenses for U S employees, retirees and their dependents were $3 1 billion, with about $2 billion attributable to retirees and the balance attributable to active employees Prescription drug cost continues as the fastest growing segment of our health care expenses and accounted for about one-third of our total U S health care expenses in 2004

Although we have taken measures to have employees and retirees bear a higher portion of the costs of their health care benefits, we expect our health care costs to increase For 2005, our trend assumptions for U S health care costs include an initial trend rate of 9%, gradually declining to a steady state trend rate of 5% reached in 2011 These assumptions include the effect of actions we are taking and expect to take to offset health care inflation, including eligibility management, employee education and wellness, competitive sourcing and appropriate employee cost sharing

Commodity Price Increases Commodity price increases, particularly for steel and resins (which are used extensively in the automotive industry), have occurred recently and are continuing during a period of strong global demand for these materials Manufacturers in China and other global steelmakers have responded through increases in capacity and production of steel We expect this, coupled with an easing in global demand pressures, to result in pricing trends beginning to moderate in the intermediate term

Currency Exchange Rate Volatility The U S dollar depreciated against most major currencies in 2004 This created downward margin pressure on auto manufacturers that have U S dollar revenue with foreign currency cost Because we produce vehicles in Europe (e g , Jaguar, Land Rover and Volvo models) for sale in the United States and produce components in Europe (e g , engines) for use in some of our North American vehicles, Ford experienced margin pressure, although this was partially offset by gains on foreign exchange derivatives Ford, like most other automotive manufacturers with sales in the United States, is not always able to price for depreciation of the U S dollar due to the extremely competitive pricing environment in the United States

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Trends and Strategies

Revenue Management To address the pricing pressure that exists in the automotive industry, we have employed a customer-focused revenue management strategy to maximize per unit revenue This strategy is focused on a disciplined approach to utilizing customer demand data — available from many sources, including internet hits, transaction data, customer leads, and research — to help us develop and sell vehicles that more closely match customer desires

We believe our revenue management strategy has contributed significantly to increases in our average net revenue per vehicle sold for our Ford North America business unit of $745 and $729 for 2004 and 2003, respectively Since 2001, our average net revenue per vehicle sold in North America has improved by over $1,700 on a cumulative basis This improvement reflected positive net pricing, as well as a more favorable product mix

Market Share An ongoing challenge in the current automotive industry is balancing market share with profitability Due to the excess industry capacity, most manufacturers engage in some amount of price discounting to increase, maintain or limit decreases in their respective market shares In the last few years, we have implemented a strategy of de-emphasizing less profitable sales to daily rental car companies, which typically are associated with a large amount of discounting, and placing greater emphasis on our share of the retail market (i e , market share among end-use customers) This strategy benefits us by reducing the overall amount of marketing incentives we incur and improving the auction and resale values of our products This latter benefit, in turn, has the added benefit of reducing depreciation expense for vehicles in Ford Credit's vehicle lease portfolio The strategy to de-emphasize sales to daily rental car companies, while contributing to improved profits, also has contributed to a loss of share in the United States

Product Differentiation and Innovation The fundamental requirement for success in the automotive business is having products with great appeal, whether in terms of styling, quality, innovative features, breakthrough technology or a combination of those characteristics Our strategy for product creation includes a strong focus on new technology This is not, however, limited to developing and introducing breakthrough vehicle technologies, but also can be applied to the total vehicle package For example, our new Ford F-150 pick-up truck, first introduced as a 2004 model, utilizes more than 130 patented inventions related to performance, utility and styling This model helped establish a sales record for F-Series pick-up trucks in 2004 with nearly one million units sold Other differentiating technologies that we have introduced or are working to introduce for general availability are

- Hybrid powertrains, which use a combination of electric power, generated from onboard batteries that are recharged while driving the vehicle, and a gasoline internal combustion engine The Ford Escape Hybrid, introduced as a 2004 model, is an example of this technology, and we plan to offer four additional vehicle models with this technology

- Other alternative fuel vehicles, such as hydrogen-powered internal combustion engines, bio or clean diesel powered vehicles and fuel cells We believe we are the only automobile manufacturer doing significant development work on all these alternative fuel technologies, as well as hybrid powertrain technologies

- Roll Stability Control™ system, which is a computer-controlled system that detects vehicle roll and automatically controls the vehicle to prevent it from rolling over This is currently standard equipment or is available as an option on most of our SUVs

- All-aluminum bodies, which reduce the weight of the vehicle, compared with steel bodies, thereby increasing vehicle fuel economy and performance The current version of the Jaguar XJ, first introduced as a 2004 model, is an example of a vehicle with this technology

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Cost Reductions Given the difficult competitive environment of the automotive industry, we continue to focus on reducing our cost structure During 2004 and 2003, we reduced our costs by $900 million and $3 billion, respectively (at constant volume, mix and exchange and excluding special items and discontinued operations) For 2005, we expect costs for pensions and health care, commodities, and depreciation and amortization will increase, compared with 2004 We expect quality-related costs (i e , those related to warranty claims and additional service actions) in 2005 to be about the same as they were in 2004 In 2005, we expect to achieve reduced manufacturing, engineering and overhead costs, as well as significant savings in product costs (which comprise material and component costs for our vehicles), compared with 2004 Overall, we expect our costs in 2005 will be about the same as they were in 2004 (at constant volume, mix and exchange and excluding special items and discontinued operations)

Shared Technologies One of the strategies we are employing to realize efficiencies in manufacturing, engineering and product costs for new vehicles is to share vehicle architectures, technologies and components among various models and re-use them from one generation of a vehicle model to the next This is illustrated in our recently launched Ford Five Hundred and Mercury Montego car models, which are 85% (by value) common, and the Ford Freestyle cross-over model, which shares 65% (by value) of the components used in those aforementioned models In addition, the architecture for all three of these vehicles is derived from an existing architecture

Business Improvement Actions

Ford Europe Improvement Plan In October 2003, we announced that we were taking actions to improve efficiency resulting from our flexible manufacturing capability by concentrating production of the next generation of our Ford Focus model in two assembly plants rather than three This plan included canceling investment for the Focus model at our Genk, Belgium plant In addition, it included revising production for our Ford Mondeo model at Genk to a 2-shift rather than 3-shift pattern beginning in January 2004 These Genk actions, together with a series of manufacturing, engineering and staff efficiency actions at various other locations in Europe, all of which comprised the Ford Europe Improvement Plan, were expected to reduce personnel levels by 6,700 and result in pre-tax charges of $675 million, including $513 million in 2003 During 2004, we completed the planned Ford Europe improvement actions, the associated pre-tax charges totaled $605 million Including the results of these actions, Ford Europe has reduced total personnel levels by more than 7,000 since mid-2003

PAG Improvement Plan In September 2004, we announced that we were taking actions to improve the structure of our Premier Automotive Group ("PAG") business unit These actions included closing the final assembly operations at our Browns Lane plant in Coventry, England, where Jaguar XJ and XK models are produced, and reducing salaried staffing levels at our Jaguar and Land Rover operations We estimated at that time that we would incur pre-tax charges and cash expenditures of about $175 million for employee separation costs Our 2004 results include $94 million of these costs and we expect to incur $75 million in 2005 associated with the shutdown of the final assembly operations at Browns Lane These actions reduced our personnel levels by 1,100 in 2004, with further personnel reductions in 2005 expected to be about 400

In addition, we decided to exit Formula One racing and to sell our Formula One racing operations, which incurred pre-tax operating losses of $45 million in the first nine months of 2004 We sold the operations in the fourth quarter of 2004 For a further discussion of the disposition of our Formula One racing operations, see Note 4 of the Notes to the Financial Statements

Revitalization Plan One of the elements of our Revitalization Plan, which we announced and began implementing in January 2002, included a reduction of maximum-installed assembly capacity for North American vehicles of over 900,000 units (down from 5 7 million units in 2001 to an ongoing level of approximately 4 8 million units) Through 2004, including the closure of our Ontario Truck

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Plant and Edison Plant, maximum-installed capacity will have been reduced by over 700,000 units Plans through 2007 (including closure of our Lorain, Ohio assembly plant) will achieve further net reductions of approximately 200,000 units, resulting in a total net reduction of about 920,000 units

The Revitalization Plan also included a global reduction of more than 35,000 personnel by 2006, including selected actions prior to 2002 Progress towards this target is measured by excluding employees of entities recently consolidated pursuant to Financial Accounting Standards Board Interpretation No 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No 51* ("FIN 46"), discussed in Note 16 of the Notes to the Financial Statements), as well as personnel associated with divested and newly-acquired operations (the latter of which would represent a net reduction of 11,000 personnel through year-end 2004 if included in the measurement) On this basis, we have realized a reduction of about 36,000 hourly and salaried employees and salaried equivalents (i e , salaried positions filled with agency personnel or the functions of which are provided by purchased services) through year-end 2004

RESULTS OF OPERATIONS

Certain prior-year amounts have been reclassified to conform to current period presentation

FULL-YEAR 2004 RESULTS OF OPERATIONS

Our worldwide net income was $3 5 billion or $1 73 per share of Common and Class B stock in 2004, up $3 0 billion from a profit of $495 million or $0 27 per share in 2003

Results by business sector for 2004, 2003, and 2002 are shown below (in millions)

	2004	2003	2002
Income/(loss) before income taxes			
Automotive sector	$ (155)	$ (1,908)	$ (1,054)
Financial Services sector	5,008	3,247	2,118
Total Company	4,853	1,339	1,064
Provision for/(benefit from) income taxes	937	123	342
Minority interests in net income/(loss) of subsidiaries (a)	282	314	367
Income/(loss) from continuing operations	3,634	902	355
Income/(loss) from discontinued operations	(147)	(143)	(333)
Cumulative effect of change in accounting principle (b)	—	(264)	(1,002)
Net income/(loss)	$ 3,487	$ 495	$ (980)

(a) Primarily related to Ford Europe's consolidated less-than-100%-owned affiliates

(b) Related to adoption of FIN 46 in 2003 and the adoption of Statement of Financial Accounting Standards No 142 in 2002 (see Notes 16 and 9, respectively, of the Notes to the Financial Statements)

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Included in *Income/(loss) before income taxes* are items we do not consider indicative of our ongoing operating activities ("special items") The following table details the 2004 special items by business unit (in millions)

Automotive sector	
Ford North America	
Allowance for Visteon receivable	$ (600)
Fuel-cell technology charges	(182)
Ford Europe improvement plans	(49)
PAG improvement plans	(110)
Ford Asia Pacific and Africa disposition of non-core businesses	(81)
Other Automotive disposition of non-core businesses	17
Total Automotive sector	(1,005)
Financial Services sector	
Property clean-up settlement	45
Total Company	$ (960)

See "Automotive Sector Results of Operations — 2004 Compared with 2003" below for discussion of special items

AUTOMOTIVE SECTOR RESULTS OF OPERATIONS

2004 Compared with 2003

Details by Automotive business unit of *Income/(loss) before income taxes* are shown below (in millions)

	Income/(Loss) Before Income Taxes		
	2004	2003	2004 Over/ (Under) 2003
Americas			
— Ford North America	$ 684	$ 196	$ 488
— Ford South America	140	(129)	269
Total Americas	824	67	757
Ford Europe and PAG			
— Ford Europe	65	(1,620)	1,685
— PAG	(850)	171	(1,021)
Total Ford Europe and PAG	(785)	(1,449)	664
Ford Asia Pacific and Africa/ Mazda			
— Ford Asia Pacific and Africa	(36)	(23)	(13)
— Mazda and Associated Operations	118	69	49
Total Ford Asia Pacific and Africa/ Mazda	82	46	36
Other Automotive	(276)	(572)	296

Total Automotive	$(155)	$ (1,908)	$ 1,753

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Details of Automotive sector sales and vehicle unit sales by Automotive business unit for 2004 and 2003 are shown below

	Sales (in billions)				Vehicle Unit Sales* (in thousands)			
	2004	2003	2004 Over/(Under) 2003		2004	2003	2004 Over/(Under) 2003	
Americas								
— Ford North America	$ 83 0	$8 3 6	$ (0 6)	(1)%	3,623	3,810	(187)	(5)%
— Ford South America	3 0	1 9	1 1	58	292	210	82	39
Total Americas	86 0	85 5	0 5	1	3,915	4,020	(105)	(3)
Ford Europe and PAG								
— Ford Europe	26 5	22 2	4 3	19	1,705	1,609	96	6
— PAG	27 6	24 8	2 8	11	771	754	17	2
Total Ford Europe and PAG	54 1	47 0	7 1	15	2,476	2,363	113	5
Ford Asia Pacific and Africa	7 0	5 8	1 2	21	407	353	54	15
Total Automotive	$147 1	$138 3	$ 8 8	6	6,798	6,736	62	1

* Included in vehicle unit sales of Ford Asia Pacific and Africa are Ford-badged vehicles sold in China and Malaysia by our unconsolidated affiliates totaling 66,190 and 33,906 units in 2004 and 2003, respectively "Sales" above does not include revenue from these units

Details of Automotive sector market share for selected markets for 2004 and 2003 are shown below

	2004	2003	2004 Over/(Under) 2003	Market
Americas				
— Ford North America	18 0%	19 2%	(1 2) pts	U S (a)
— Ford South America	11 8	11 5	0 3	Brazil (a)
Ford Europe and PAG (b)				
— Ford Europe	8 7	8 6	0 1	Europe (a)
— PAG	1 3/2 3	1 3/2 1	0/0 2	U S /Europe
Ford Asia Pacific and Africa	14 2	13 9	0 3	Australia (a)

(a) Excludes market share of our PAG brand vehicles (i e , Volvo, Jaguar, Land Rover and Aston Martin)

(b) European market share for Ford Europe and PAG are based, in part, on estimated 2004 vehicle registrations for our 19 major markets

Overall Automotive Sector

The improvement in *Income/(loss) before income taxes* primarily reflected the change in charges related to Visteon Corporation ("Visteon"), Ford's largest supplier (see "Ford North America" discussion below), higher net pricing, favorable cost performance and the favorable effect of tax-related interest on refunds and settlements of prior-year federal and state audits, offset partially by lower vehicle unit sales and unfavorable changes in currency exchange rates

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The table below details our achievement of our 2004 cost performance milestone (in billions)

	2004 Costs* Better/(Worse) than 2003		Explanation of Cost Performance
Quality-related	$ (0 1)	—	Non-recurrence of 2003 reserve adjustments, offset partially by 2004 improvements
Manufacturing and engineering	1 2	—	Primarily reductions in hourly and salaried personnel as a result of the Ford Europe Improvement Plan, North American plant closings, and engineering efficiency actions, offset partially by higher costs to launch new vehicles in 2004
Overhead	0 3	—	Primarily administrative cost savings (largely personnel related), reduced parts distribution costs, and lower litigation expenses, offset partially by higher fixed marketing costs
Pension and healthcare	0 1	—	Primarily the effect of new Medicare drug legislation and higher VEBA contributions, partially offset by the effect of a lower discount rate
Net product costs	0 0	—	New product and commodities-related cost increases, offset by design cost reductions on existing products and pricing efficiencies at our suppliers
Depreciation and amortization	(0 6)	—	Related to investments for new vehicles
Total	$ 0 9		

* At constant volume, mix and exchange and excluding special items and discontinued operations

The Americas Segment

Ford North America The improvement in earnings primarily reflected the non-recurrence of $1 6 billion of charges in 2003 related to Visteon, offset by a charge of $600 million to establish an allowance against a receivable from Visteon in 2004 The receivable relates to costs for postretirement health care and life insurance benefits provided to Ford hourly employees assigned to Visteon and other select Visteon employees who are former employees of Ford The charges in 2003 related to agreements with Visteon, which primarily addressed postretirement health care costs for service prior to 2000 for Ford hourly employees assigned to Visteon, as well as pricing, sourcing and other arrangements

In addition, the improvement in earnings reflected positive net pricing and favorable cost performance, offset partially by lower vehicle unit sales, unfavorable changes in currency exchange rates (primarily weakening of the U S dollar compared with the Euro and the Canadian dollar) and other special items (discussed below) Lower vehicle unit sales reflected a decline in market share

Other special items in 2004 included a charge of $182 million related to our investment in Ballard Power Systems Inc ("Ballard"), a provider of fuel-cell technology The charge included a write-down to fair market value of our investment in Ballard for the portion that is held for sale and recognition of an other-than-temporary loss in value on the long-term portion of our investment

Ford South America The improvement in earnings primarily reflected positive net pricing and higher vehicle unit sales, offset partially by higher commodity costs

Ford Europe and PAG Segment

Ford Europe The improvement in earnings primarily reflected favorable cost performance, lower charges related to the Ford Europe Improvement Plan (primarily employee separation charges) (less than $100 million in 2004 compared with $513 million in 2003) and higher profits at our Ford Otosan joint venture in Turkey Favorable cost performance reflected successful execution of the Ford Europe Improvement Plan and material cost savings

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

PAG The increased loss primarily reflected unfavorable changes in currency exchange rates, as well as vehicle production reductions and employee separation charges at Jaguar related to the implementation of the PAG Improvement Plan and higher costs for launching new vehicles, offset partially by positive net pricing

Ford Asia Pacific and Africa/ Mazda Segment

Ford Asia Pacific and Africa The improvement in earnings primarily reflected favorable changes in currency exchange rates and higher vehicle unit sales, offset partially by a charge related to the disposition of certain dealerships

Mazda and Associated Operations The change primarily reflected improvements in our Mazda-related investments

Other Automotive

The improvement in results primarily reflected higher tax-related interest on refund claims (about $600 million in 2004 compared to about $300 million in 2003) and the favorable effect on interest expense of the settlements in 2004 of prior-year federal and state tax audits and 2004 debt repurchases This was offset partially by the reclassification of interest expense on our 6 50% Junior Subordinated Debentures due 2032 held by a subsidiary trust, Ford Motor Company Capital Trust II (prior to July 1, 2003, this interest expense was included in *Minority interests in net income/(loss) of subsidiaries)* For 2005, we expect pre-tax losses for Other Automotive to be in the range of $500 million to $900 million

2003 Compared with 2002

Details by Automotive business unit of *Income/(loss) before income taxes* are shown below (in millions)

	Income/(Loss) Before Income Taxes		
	2003	2002	2003 Over/(Under) 2002
Americas			
— Ford North America	$ 196	$ 2,534	$ (2,338)
— Ford South America	(129)	(620)	491
Total Americas	67	1,914	(1,847)
Ford Europe and PAG			
— Ford Europe	(1,620)	(711)	(909)
— PAG	171	(858)	1,029
Total Ford Europe and PAG	(1,449)	(1,569)	120
Ford Asia Pacific and Africa/ Mazda			
— Ford Asia Pacific and Africa	(23)	(173)	150
— Mazda and Associated Operations	69	(15)	84
Total Ford Asia Pacific and Africa/ Mazda	46	(188)	234
Other Automotive	(572)	(1,211)	639
Total Automotive	$(1,908)	$(1,054)	$ (854)

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Details of Automotive sector sales and vehicle unit sales for 2003 and 2002 are shown below

	Sales (in billions)				Vehicle Unit Sales* (in thousands)			
	2003	2002	2003 Over/(Under) 2002		2003	2002	2003 Over/(Under) 2002	
Americas								
— Ford North America	$ 83 6	$ 87 1	$ (3 5)	(4)%	3,810	4,146	(336)	(8)%
— Ford South America	1 9	1 5	0 4	27	210	195	15	8
Total Americas	85 5	88 6	(3 1)	(3)	4,020	4,341	(321)	(7)
Ford Europe and PAG								
— Ford Europe	22 2	18 9	3 3	17	1,609	1,561	48	3
— PAG	24 8	21 1	3 7	18	754	771	(17)	(2)
Total Ford Europe and PAG	47 0	40 0	7 0	18	2,363	2,332	31	1
Ford Asia Pacific and Africa	5 8	4 4	1 4	32	353	300	53	18
Other Automotive	—	1 1	(1 1)	—				
Total Automotive	$ 138 3	$ 134 1	$ 4 2	3	6,736	6,973	(237)	(3)

* Included in vehicle unit sales of Ford Asia Pacific and Africa are Ford-badged vehicles sold in China and Malaysia by our unconsolidated affiliates totaling 33,906 and 17,404 units in 2003 and 2002, respectively "Sales" above does not include revenue from these units

Details of Automotive sector market share for selected markets for 2003 and 2002 are shown below

	2003	2002	2003 Over/(Under) 2002	Market
Americas				
— Ford North America	19 2%	19 9%	(0 7) pts	U S *
— Ford South America	11 5	9 9	1 6	Brazil*
Ford Europe and PAG				
— Ford Europe	8 6	8 6	0	Europe*
— PAG	1 3/2 1	1 2/2 2	0 1/(0 1)	U S /Europe
Ford Asia Pacific and Africa	13 9	13 2	0 7	Australia*

* Excludes market share of our PAG brand vehicles (i e , Volvo, Jaguar, Land Rover and Aston Martin)

The Americas Segment

Ford North America The reduction in earnings primarily reflected the charges related to agreements with Visteon discussed above (see "2004 compared with 2003 — The Americas Segment Ford North America"), lower vehicle unit sales, unfavorable net pricing and unfavorable changes in currency exchange rates, offset partially by cost reductions and favorable product mix

Ford South America The improvement in earnings primarily reflected the non-recurrence of the adverse effects of currency devaluation in Brazil and Argentina, increased market share and continuing improvement in the business structure

Ford Europe and PAG Segment

Ford Europe The increased loss primarily reflected the charges related to the Ford Europe Improvement Plan discussed above (see "2004 compared with 2003 — Ford Europe and PAG Segment Ford Europe"), unfavorable net pricing, a less favorable product mix, unfavorable changes

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

in currency exchange rates and a larger reduction in dealer stocks, offset partially by cost reductions and improved results at Ford Otosan, our joint venture in Turkey

PAG The improvement in earnings primarily reflected cost reductions and improved product mix, offset partially by unfavorable changes in currency exchange rates and the non-recurrence of employee separation charges incurred in 2002

Ford Asia Pacific and Africa/ Mazda Segment

Ford Asia Pacific and Africa The improvement in earnings primarily reflected favorable changes in currency exchange rates, higher vehicle unit sales and positive net pricing

Mazda The improvement in earnings primarily reflected our share of Mazda's improved operating results

Other Automotive

The improvement in loss primarily reflected the non-recurrence of a charge in 2002 related to the sale of non-core businesses, primarily Kwik-Fit Holdings Ltd

FINANCIAL SERVICES SECTOR RESULTS OF OPERATIONS

2004 Compared with 2003

Details of the full year Financial Services sector *Income/(loss) before income taxes* for 2004 and 2003 are shown below (in millions)

	Income/(Loss) Before Income Taxes		
	2004	2003	2004 Over/(Under) 2003
Ford Credit	$ 4,431	$ 2,956	$ 1,475
Hertz*	493	228	265
Other Financial Services	84	63	21
Total Financial Services sector	$ 5,008	$ 3,247	$ 1,761

* Includes amortization expense related to intangibles recognized upon consolidation of Hertz

Ford Credit

The increase in income before income taxes of $1,475 million primarily reflected improved credit loss performance and improved leasing results The improved credit loss performance primarily resulted from fewer repossessions and a lower average loss per repossession The improvement in leasing results primarily reflected higher used vehicle prices and a reduction in the percentage of vehicles returned to Ford Credit at lease termination

Ford Credit reviews its business performance from several perspectives, including

- On-balance sheet basis — includes the receivables Ford Credit owns and receivables sold for legal purposes that remain on Ford Credit's balance sheet,

- Securitized off-balance sheet basis — includes receivables sold in securitization transactions that are not reflected on Ford Credit's balance sheet,

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

- Managed basis — includes on-balance sheet and securitized off-balance sheet receivables that Ford Credit continues to service, and
- Serviced basis — includes managed receivables and receivables sold in whole-loan sale transactions where Ford Credit retains no interest in the sold receivables, but which it continues to service

Ford Credit analyzes its financial performance primarily on an on-balance sheet and managed basis It retains interests in receivables sold in off-balance sheet securitizations, and with respect to subordinated retained interests, has credit risk As a result, it evaluates credit losses, receivables and leverage on a managed basis as well as on an on-balance sheet basis In contrast, Ford Credit does not have the same financial interest in the performance of receivables sold in whole-loan sale transactions, and as a result it generally reviews the performance of the serviced portfolio only to evaluate the effectiveness of its origination and collection activities To evaluate the performance of these activities, Ford Credit monitors a number of measures, such as repossession statistics, losses on repossessions and the number of bankruptcy filings

Ford Credit's finance receivables, net of allowance for credit losses, and net investment in operating leases for its on-balance sheet, securitized off-balance sheet, managed and serviced portfolios are shown below (in billions)

	December 31,	
	2004	2003
On-Balance Sheet (including on-balance sheet securitizations)		
Finance receivables		
Retail installment	$ 81 7	$ 77 0
Wholesale	23 8	22 4
Other	5 3	5 9
Total finance receivables, net	110 8	105 3
Net investment in operating leases	21 9	23 2
Total on-balance sheet	$ 132 7	$ 128 5
Memo Allowance for credit losses included above	$ 2 4	$ 2 9
Securitized Off-Balance Sheet		
Finance receivables		
Retail installment	$ 16 7	$ 26 6
Wholesale	18 9	20 3
Other	—	—
Total finance receivables	35 6	46 9
Net investment in operating leases	—	—
Total securitized off-balance sheet	$ 35 6	$ 46 9
Managed		
Finance receivables		
Retail installment	$ 98 4	$ 103 6
Wholesale	42 7	42 7
Other	5 3	5 9
Total finance receivables, net	146 4	152 2
Net investment in operating leases	21 9	23 2
Total managed*	$ 168 3	$ 175 4

Serviced	$ 172 3	$ 182 7

* At December 31, 2004 and 2003, Ford Credit's retained interests in sold receivables were $9 2 billion and $12 6 billion, respectively For more information regarding these retained interests, see "Off-Balance Sheet Arrangements" below

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On-Balance Sheet Receivables At December 31, 2004 and 2003, about $16 9 billion and $14 3 billion, respectively, of finance receivables have been sold for legal purposes to consolidated securitization special purpose entities ("SPEs") In addition, at December 31, 2004, interests in operating leases and the related vehicles of about $2 5 billion have been transferred for legal purposes to consolidated securitization SPEs These receivables and interests in operating leases and the related vehicles are available only for repayment of debt issued by those entities, and to pay other securitization investors and other participants, they are not available to pay Ford Credit's other obligations or the claims of Ford Credit's other creditors

Securitized Off-Balance Sheet Receivables Total securitized off-balance sheet receivables decreased $11 3 billion from a year ago

Managed Receivables Total managed receivables decreased $7 1 billion from a year ago The decrease primarily reflected lower retail and operating lease contract placement volumes The lower level of managed receivables reflected Ford Credit's continued focus on financing Ford brand vehicles

The following table shows actual credit losses net of recoveries, which are referred to as charge-offs, for Ford Credit's worldwide on-balance sheet, reacquired, securitized off-balance sheet and managed receivables, for the various categories of financing during the periods indicated Reacquired receivables reflect the amount of receivables that resulted from the accounting consolidation of FCAR Owner Trust ("FCAR") in the second quarter of 2003 The loss-to-receivables ratios, which equal charge-offs divided by the average amount of net receivables outstanding for the period, are shown for the on-balance sheet and managed portfolios

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	2004	2003	2004 Over/(Under) 2003
Charge-offs (in millions)			
On-Balance Sheet			
Retail installment and lease	$ 1,281	$ 1,737	$ (456)
Wholesale	43	148	(105)
Other	3	6	(3)
Total on-balance sheet (excluding reacquired receivables)	1,327	1,891	(564)
Reacquired Receivables (retail)	74	92	(18)
Total on-balance sheet (including reacquired receivables)	$ 1,401	$ 1,983	$ (582)
Securitized Off-Balance Sheet			
Retail installment and lease	$ 244	$ 551	$ (307)
Wholesale	—	—	—
Other	—	—	—
Total securitized off-balance sheet	$ 244	$ 551	$ (307)
Managed			
Retail installment and lease	$ 1,599	$ 2,380	$ (781)
Wholesale	43	148	(105)
Other	3	6	(3)
Total managed	$ 1,645	$ 2,534	$ (889)
Loss-to-Receivables Ratios			
On-Balance Sheet (including reacquired receivables)*			
Retail installment and lease	1 36%	1 86%	(0 50) pts
Wholesale	0 20	0 79	(0 59)
Total including other	1 10%	1 60%	(0 50) pts
Memo On-Balance Sheet (excluding reacquired receivables)	1 04%	1 52%	(0 48) pts
Managed			
Retail installment and lease	1 32%	1 77%	(0 45) pts
Wholesale	0 10	0 37	(0 27)
Total including other	0 97%	1 40%	(0 43) pts

* Ford Credit believes that the use of the on-balance sheet loss-to-receivables ratio that includes the charge-offs related to reacquired receivables is useful to investors because it provides a more complete presentation of Ford Credit's on-balance sheet charge-off performance

In 2004, charge-offs for Ford Credit's on-balance sheet and its securitized off-balance sheet receivables declined from a year ago primarily reflecting fewer repossessions and a lower average loss per repossession in its U S retail installment and operating lease portfolio These improvements resulted from Ford Credit's emphasis on purchasing higher quality retail installment and lease contracts and enhancements to its collection practices The on-balance sheet loss-to-receivables ratio decreased primarily reflecting improvements in charge-offs as described above

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Shown below is an analysis of Ford Credit's allowance for credit losses related to finance receivables and operating leases for the years ended December 31 (dollar amounts in billions)

	2004	2003
Allowance for Credit Losses		
Balance, beginning of year	$ 2 9	$ 3 0
Provision for credit losses	0 9	1 9
Deductions		
Charge-offs	1 8	2 4
Recoveries	(0 5)	(0 5)
Net charge-offs	1 3	1 9
Other changes, principally amounts related to finance receivables sold and translation adjustments	0 1	0 1
Net deductions	1 4	2 0
Balance, end of year	$ 2 4	$ 2 9
Allowance for credit losses as a percentage of end-of-period net receivables*	1 83%	2 26%

* Includes net investment in operating leases

The decrease in the allowance for credit losses of approximately $500 million primarily reflected significantly improved charge-off performance in the United States, specifically fewer repossessions and a lower average loss per repossession in the Ford, Lincoln and Mercury brand U S retail installment sale and operating lease portfolio Ford Credit's emphasis on purchasing higher quality receivables, enhancements to its collection practices and higher used vehicle prices resulted in a reduction in net charge-offs and the associated provision for credit losses

The following table summarizes the activity related to off-balance sheet sales of receivables reported as revenues for the periods indicated (in millions except for ratios)

	2004	2003	2004 Over/(Under) 2003
Net gain on sales of receivables	$ 155	$ 373	$ (218)
Income on interest in sold wholesale receivables and retained securities	588	679	(91)
Servicing fees	372	618	(246)
Income from residual interest and other	815	941	(126)
Investment and other income related to sales of receivables	1,930	2,611	(681)
Less Whole-loan income	(91)	(234)	143
Income related to off-balance sheet securitizations	$1 ,839	$2 ,377	$ (538)
Memo			
Finance receivables sold	$6 ,933	$19,296	$ (12,363)
Servicing portfolio as of period-end	3 9,573	5 4,170	(14,597)
Pre-tax gain per dollar of retail receivables sold	2 2%	1 9%	(0 3) pts

The decrease in investment and other income related to sales of receivables reflected lower levels of outstanding sold receivables compared with 2003

Sales of finance receivables through off-balance sheet securitizations have the impact on earnings of recalendarizing and reclassifying net financing margin (i e , financing revenue less interest expense) and credit losses related to the sold receivables, compared with how they would have been reported if Ford Credit continued to report the sold receivables on-balance sheet and funded them through asset-backed financings Recalendarization effects occur initially when the gain or loss on sales of receivables is recognized in the period the receivables are sold Over the life of the securitization

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transaction, Ford Credit recognizes income from residual interest in securitization transactions, interest income from retained securities, servicing fees and other receivable sale income

In addition, credit losses related to the off-balance sheet securitized receivables are included in the initial and ongoing valuation of Ford Credit's residual interest in the securitization transaction (see "Off-balance Sheet Arrangements — Sales of Receivables by Ford Credit" for definition) and neither impact the *Provision for credit and insurance losses* on the income statement nor influence the assessment of the adequacy of the *Allowance for credit losses* related to Ford Credit's on-balance sheet receivables

Therefore, over the life of each off-balance sheet securitization transaction, the gain or loss on sale of receivables, income from residual interest in securitization transactions, interest income from retained securities, servicing fees and other receivable sale income is equal to the net financing margin and credit losses that would have been reported had Ford Credit reported the receivables on its balance sheet and funded them through asset-backed financings

The net impact of off-balance sheet securitizations on Ford Credit's earnings in a given period will vary depending on the amount and type of receivables sold and the timing of the transactions in the current period and the preceding two-to-three year period, as well as the interest rate environment at the time the finance receivables were originated and securitized

The following table shows, on an analytical basis, the earnings impact of off-balance sheet securitizations as if Ford Credit had reported them as on-balance sheet and funded them through asset-backed financings for the periods indicated (in millions)

	2004	2003	2004 Over/(Under) 2003
Financing revenue			
Retail revenue	$ 1,926	$ 3,371	$ (1,445)
Wholesale revenue	1,097	1,080	17
Total financing revenue	3,023	4,451	(1,428)
Borrowing cost	(854)	(1,443)	589
Net financing margin	2,169	3,008	(839)
Credit losses	(244)	(551)	307
Income before income taxes	$ 1,925	$ 2,457	$ (532)
Memo			
Income related to off-balance sheet securitizations	$ 1,839	$ 2,377	$ (538)
Recalendarization impact of off-balance sheet securitizations	(86)	(80)	6

In 2004, the impact on earnings of reporting the sold receivables as off-balance sheet securitizations was $86 million lower than had these transactions been structured as on-balance sheet securitizations This difference resulted from recalendarization effects caused by gain-on-sale accounting requirements, as discussed above This effect will fluctuate as the amount of receivables sold in Ford Credit's off-balance sheet securitizations increases or decreases over time In a steady state of securitization activity, the difference between reporting securitizations on- or off-balance sheet in a particular year approaches zero While the difference in earnings impact between on- or off-balance sheet securitizations is minimal, this funding source has provided Ford Credit with significant borrowing cost savings compared with unsecured debt and funding flexibility in a difficult economic environment

Hertz

The improvement in earnings primarily reflected higher vehicle and equipment rental volumes, lower fleet costs and higher proceeds received in excess of book value on the disposal of used vehicles and equipment, offset partially by lower pricing

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2003 Compared with 2002

Details of the full-year Financial Services sector *Income/(loss) before income taxes* for 2003 and 2002 are shown below (in millions)

	Income/(Loss) Before Income Taxes		
	2003	2002	2003 Over/(Under) 2002
Ford Credit	$ 2,956	$ 1,979	$ 977
Hertz*	228	200	28
Other Financial Services	63	(61)	124
Total Financial Services sector	$ 3,247	$ 2,118	$ 1,129

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* Includes amortization expense related to intangibles recognized upon consolidation of Hertz

Ford Credit

The increase in income before income taxes primarily reflected improved credit loss performance and the net favorable market valuation of derivative instruments and associated exposures, offset partially by the impact of lower average net receivables

Hertz

The improvement in earnings primarily reflected an improved car rental pricing environment and lower costs

LIQUIDITY AND CAPITAL RESOURCES

Automotive Sector

Our strategy is to ensure we have sufficient funding available with a high degree of certainty throughout the business cycle The key elements of this strategy include maintaining large gross cash balances, generating cash from operating-related activities, having a long-dated debt maturity profile, maintaining committed credit facilities and funding long-term liabilities over time

Gross Cash Automotive gross cash includes cash and cash equivalents, marketable and loaned securities and assets contained in a short-term Voluntary Employee Beneficiary Association trust ("VEBA") (see below) Gross cash as of December 31, 2004, 2003 and 2002 is detailed below (in billions)

	December 31,		
	2004	2003	2002
Cash and cash equivalents	$ 10 1	$ 6 9	$ 6 2
Marketable securities	8 3	9 3	16 4
Loaned securities*	1 1	5 7	—

Total cash, marketable securıtıes and loaned securıtıes	19 5	21 9	22 6
Short-term VEBA assets	4 1	4 0	2 7
Gross cash	$ 23 6	$ 25 9	$ 25 3

* As part of our ınvestment strategy, we engage ın securıtıes lendıng to ımprove the returns on our cash portfolıos See Note 5 of the Notes to the Fınancıal Statements for addıtıonal dıscussıon on securıtıes lendıng

In managıng our busıness, we classıfy changes ın gross cash ınto four categorıes operatıng-related (both ıncludıng and excludıng pensıon/long-term VEBA contrıbutıons and tax refunds), capıtal transactıons wıth the Fınancıal Servıces sector, acquısıtıons and dıvestıtures and other (prımarıly financıng related) Our key metrıc for operatıng-related cash flow ıs cash flow before funded pensıon

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and long-term VEBA contributions and tax refunds This metric best represents the ability of our Automotive operations to generate cash We believe the cash flow analysis reflected in the table below, which differs from a cash flow statement presented in accordance with GAAP, is useful to investors because it includes cash flow elements that we consider to be related to our operating activities (e g , capital spending) that are not included in *Cash flows from operating activities before securities trading*, the most directly comparable GAAP financial measure

Changes in Automotive gross cash for the last three years are summarized below (in billions)

	2004	2003	2002
Gross cash at end of period	$ 23 6	$ 25 9	$ 25 3
Gross cash at beginning of period	25 9	25 3	17 7
Total change in gross cash	$ (2 3)	$ 0 6	$ 7 6
Operating-related cash flows			
Automotive income/(loss) before income taxes	$ (0 2)	$ (1 9)	$ (1 1)
Non-cash portion of Visteon special items	0 6	1 6	—
Capital expenditures	(6 3)	(7 4)	(6 8)
Depreciation and special tools amortization	6 4	5 5	4 9
Changes in receivables, inventory and trade payables	(0 4)	(1 0)	(1 8)
All other	0 9	3 3	5 1
Total operating-related cash flows before pension/long-term VEBA contributions and tax refunds	1 0	0 1	0 3
Funded pension plans/long-term VEBA contributions	(5 0)	(4 8)	(0 5)
Tax refunds	0 3	1 7	2 6
Total operating-related cash flows	(3 7)	(3 0)	2 4
Capital transactions with Financial Services sector (a)	4 2	3 6	0 4
Acquisitions and divestitures	0 4	0 5	0 6
Other			
Dividends paid to shareholders	(0 7)	(0 7)	(0 7)
Convertible preferred securities	—	—	4 9
Changes in total Automotive sector debt	(2 4)	(0 1)	(0 1)
Cash from FIN 46 consolidations (b)	—	0 3	—
Other — primarily net issuance/(purchase) of stock	(0 1)	—	0 1
Total change in gross cash	$ (2 3)	$ 0 6	$ 7 6

(a) Primarily dividends, loans, and loan repayments

(b) See Note 16 of the Notes to the Financial Statements for a discussion of the adoption of FIN 46

Total 2004 operating-related cash flows before funded pension plan and long-term VEBA contributions and tax refunds were $1 0 billion positive Other operating-related changes, primarily timing differences between expense or revenue recognition and the corresponding cash payments for costs such as health care, pension, marketing, and warranty, offset partially by higher year-end inventory, contributed about $900 million in 2004 The $1 1 billion decrease in capital expenditures in 2004 from 2003, primarily reflected the high level of North American spending in 2003 for new product launches consistent with our product-led revitalization plan

Including funded pension plan and long-term VEBA contributions and tax refunds, operating-related cash flows were an outflow of $3 7 billion Contributions to our worldwide funded pension plans totaled $2 2 billion in 2004, compared to approximately $2 8 billion in 2003 In 2004, we also contributed $2 8 billion to a long-term VEBA used to pre-fund a portion of Ford's other postretirement benefits liability We made no contributions to our short-term VEBA in 2004 which we include in gross cash The $4 1 billion of short-term VEBA assets are invested in a manner similar to our cash portfolio and are available to fund certain employee benefit obligations in the near term The $5 2 billion of long-term VEBA assets are invested in a manner similar to our pension fund assets The assets of the long-term VEBA are not included in gross cash, but are dedicated to pay longer-term healthcare

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obligations See Note 22 of the Notes to the Financial Statements for plans to contribute to funded pension plans and VEBA

Capital transactions with the Financial Services sector of $4 2 billion in 2004 reflected primarily dividends paid by Ford Credit In addition, dividends of about $200 million from the Financial Services sector in 2004 are reflected in the table above as divestitures because they resulted primarily from the sale by the Financial Services sector of dealership and surplus properties

Shown in the table below is a reconciliation between financial statement *Cash flows from operating activities before securities trading* and operating-related cash flows (calculated as shown in the table above), for the last three years (in billions)

	2004	2003	2002
Cash flows from operating activities before securities trading (a)	$ 14	$ 13	$ 95
Items included in operating-related cash flow			
Capital expenditures	(6 3)	(7 4)	(6 8)
Net transactions between Automotive and Financial Services sectors (b)	1 3	1 2	(0 1)
Other, primarily exclusion of cash flow from short-term VEBA contribution/(draw-down)	(0 1)	1 9	(0 2)
Operating-related cash flows	$ (3 7)	$ (3 0)	$ 2 4

(a) As shown in our Sector Statement of Cash Flows for the Automotive sector

(b) Primarily payables and receivables between the sectors in the normal course of business, as shown in our Sector Statement of Cash Flows for the Automotive sector

Debt and Net Cash At December 31, 2004, our Automotive sector had total senior debt of $13 3 billion compared with $15 0 billion a year ago The decrease in debt primarily reflected the retirement of about $1 5 billion of relatively high-cost debt through open-market repurchases Most of the retired debt had maturity dates between 2028 and 2032

During 2005, we intend, depending on market conditions, to continue repurchasing our outstanding debt securities from time to time and to continue making contributions to our funded pension plans and VEBA Such debt repurchases likely would be concentrated in, but not limited to, the following four debt issues, of which up to 50% of any one issue potentially may be purchased 6 5/8% Debentures due October 1, 2028 with an original aggregate principal amount of $1 5 billion, 6 3/8% Debentures due February 1, 2029 with an original aggregate principal amount of $1 5 billion, 7 45% Global Landmark Securities due July 16, 2031 with an original aggregate principal amount of $4 8 billion, and 8 90% Debentures due January 15, 2032 with an original aggregate principal amount of $502 million

Ford Motor Company Capital Trust II ("Trust II") had outstanding $5 0 billion of trust preferred securities at December 31, 2004 The dividend and liquidation preference on these securities are paid from interest and principal payments on our junior subordinated debentures held by Trust II in a principal amount of $5 2 billion

On January 2, 2004, we redeemed our outstanding junior subordinated debentures held by Ford Motor Company Capital Trust I This had the effect of reducing total Automotive subordinated debt by about $700 million

At December 31, 2004, our Automotive sector had net cash (defined as gross cash less total senior and subordinated debt) of $5 2 billion, compared with $5 1 billion and $5 4 billion at the end of 2003 and 2002, respectively

The weighted average maturity of our total long-term debt (including subordinated debt), substantially all of which is fixed-rate debt, is approximately 25 years with about $3 7 billion maturing by December 31, 2024 The weighted average maturity of total debt (long-term and short-term

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including subordinated debt) is approximately 25 years For additional information on debt, see Note 15 of the Notes to the Financial Statements

Seasonal Working Capital Funding In July 2004, we raised $2 3 billion of short-term (i e , less than 90 days) bank loans to finance our annual summer vacation plant shutdown The shutdown period normally results in temporary cash outflow as cash payments to suppliers and dealers continue, but vehicles are not produced The short-term seasonal working capital funding reduced the annual cash volatility that results from our shutdown period Similarly, we raised $1 9 billion in January 2005 to finance our annual holiday shutdown at the end of 2004

Credit Facilities At December 31, 2004, the Automotive sector had $7 2 billion of contractually committed credit agreements with various banks, of which $7 1 billion were available for use For further discussion of our committed credit facilities, see Note 15 of the Notes to the Financial Statements

Financial Services Sector

Ford Credit

Debt and Cash Ford Credit's total debt was $144 3 billion at December 31, 2004, down $5 4 billion compared with a year ago, primarily reflecting lower funding requirements due to lower asset levels Ford Credit's outstanding unsecured commercial paper at December 31, 2004 totaled $8 9 billion, up $2 8 billion compared with a year ago and up approximately $700 million compared with year-end 2002, primarily reflecting increased investor demand

At December 31, 2004, Ford Credit had cash and cash equivalents of $12 7 billion In the normal course of its funding activities, Ford Credit may generate more proceeds than are necessary for its immediate funding needs These excess amounts are maintained primarily as highly liquid investments, which provide liquidity for Ford Credit's short-term funding obligations and give Ford Credit flexibility in the use of its other funding programs

Funding Ford Credit requires substantial funding in the normal course of business Ford Credit's funding requirements are driven mainly by the need to (i) purchase retail installment sale contracts and vehicle leases to support the sale of Ford products, which are influenced by Ford-sponsored special financing and leasing programs that are available exclusively through Ford Credit, (ii) provide vehicle inventory and capital financing for Ford dealers, and (iii) repay its debt obligations

Ford Credit's funding sources include debt issuances, sales of receivables in securitizations and other structured financings, and bank borrowings Debt issuance consists of short- and long-term unsecured debt, placed directly by Ford Credit or through securities dealers or underwriters in the United States and international capital markets, and reaches both retail and institutional investors Ford Credit issues commercial paper in the United States, Europe, Canada and other international markets In addition to its commercial paper programs, Ford Credit also obtains short-term funding from the sale of floating rate demand notes, which may be redeemed at any time at the option of the holder thereof without restriction At December 31, 2004, the principal amount outstanding of such notes was $7 7 billion Ford Credit does not hold reserves to fund the payment of the demand notes or any other short-term funding obligation Ford Credit's policy is to have sufficient cash and cash equivalents, unused committed bank-sponsored asset-backed commercial paper issuer capacity, securitizable assets, and back-up credit facilities to provide liquidity for all of its short-term funding obligations

During 2004, Ford Credit continued to meet a significant portion of its funding requirements through securitizations because of the stability of the market for asset-backed securities, their lower relative costs given our credit ratings (as described below), and the diversity of funding sources that they provide Securitized funding (both on- and off-balance sheet, net of retained interests) as a

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percent of total managed receivables was as follows as of the end of each of the last three years 2004 — 24%, 2003 — 25%, 2002 — 28%

The following table illustrates Ford Credit's term public funding issuances for 2003 and 2004 and its planned issuances for 2005 (in billions)

	2005 Forecast	2004	2003
Unsecured Term Debt			
Institutional	$ 5 - 9	$ 7	$ 15
Retail	5 - 6	5	4
Total unsecured term debt	10 - 15	12	19
Term Public Securitization*	10 - 15	6	11
Total term public funding	$ 20 - 30	$ 18	$ 30

* Reflects new issuance and includes funding from discontinued operations in 2004 and 2003, excludes whole-loan sales, and other structured financings

The cost of both debt and funding in securitizations is based on a margin or spread over a benchmark interest rate, such as interest rates paid on U S Treasury securities of similar maturities Over the last two years, on an indicative basis, spreads on Ford Credit's securitized funding have fluctuated between 35 and 63 basis points above 3-year U S Treasury securities, while Ford Credit's unsecured long-term debt funding spreads have fluctuated between 124 and 638 basis points above comparable U S Treasury securities In 2004, on an indicative basis, Ford Credit's unsecured term-debt spreads fluctuated between 124 and 205 basis points above 3-year U S Treasury securities, with an average spread of 162 basis points and a year-end spread of 165 basis points above comparable U S Treasury securities

During 2002, Ford Credit began a program to sell retail installment sale contracts in transactions where it retains no interest and thus no exposure to the sold assets These transactions, referred to as "whole-loan sale transactions," provide liquidity by enabling Ford Credit to reduce its managed receivables and its need for funding to support those receivables Total outstanding receivables sold in whole-loan sale transactions at December 31, 2004 were $4 0 billion

As a result of lower credit ratings over the last three years, Ford Credit focused its efforts on further diversification of funding sources and reduced its reliance on short-term funding, especially unsecured commercial paper Ford Credit launched new asset-backed commercial paper and retail unsecured bond programs, and it expanded its securitization and other structured financing channels, including transactions by foreign affiliates and expansion of its bank-sponsored asset-backed commercial paper issuers program As Ford Credit's short-term credit ratings have declined, asset-backed commercial paper programs have become more cost-effective compared with unsecured commercial paper, and allow Ford Credit access to a larger investor base As a result of Ford Credit's funding strategy and the reduction in its managed receivables, lower credit ratings during the past three years have not had a material impact on Ford Credit's ability to fund its operations Any further lowering of its credit ratings may increase Ford Credit's borrowing costs and potentially constrain its funding sources This could cause Ford Credit to increase its use of securitization or other sources of liquidity or to reduce the amount of receivables it could purchase, thereby potentially adversely affecting its ability to support the sale of Ford vehicles

For additional funding and to maintain liquidity, Ford Credit and its majority-owned subsidiaries, including FCE, have contractually committed credit facilities with financial institutions that totaled approximately $7 5 billion at December 31, 2004 This includes $4 3 billion of Ford Credit facilities ($3 9 billion global and approximately $400 million non-global) and $3 2 billion of FCE facilities ($3 0 billion global and approximately $200 million non-global) Approximately $800 million of the

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total facilities were in use at December 31, 2004 Additionally, at December 31, 2004, banks provided $18 0 billion of contractually committed liquidity facilities supporting two asset-backed commercial paper programs established by Ford Credit Ford Credit also has entered into agreements with a number of bank-sponsored asset-backed commercial paper issuers under which such issuers are contractually committed to purchase from Ford Credit, at Ford Credit's option, up to $14 3 billion of receivables in the aggregate at December 31, 2004 For further discussion of these facilities and agreements, see Note 15 of the Notes to the Financial Statements

Leverage Ford Credit uses leverage, or the debt-to-equity ratio, to make various business decisions, including establishing pricing for retail, wholesale and lease financing, and assessing its capital structure Ford Credit calculates leverage on a financial statement basis and on a managed basis using the following formulas

$$\text{Financial Statement Leverage} = \frac{\text{Total Debt}}{\text{Equity}}$$

$$\text{Managed Leverage} = \frac{\text{Total Debt} + \text{Securitized Off-Balance Sheet Receivables} - \text{Retained Interest in Securitized Off-Balance Sheet Receivables} - \text{Cash and Cash Equivalents} - \text{SFAS No 133 Adjustments on Total Debt}}{\text{Equity} + \text{Minority Interest} - \text{SFAS No 133 Adjustment on Equity}}$$

The following table illustrates the calculation of Ford Credit's financial statement leverage (in billions, except for ratios)

	December 31,		
	2004	2003	2002
Total debt	$ 144 3	$ 149 7	$ 140 3
Total stockholder's equity	11 5	12 5	13 6
Debt-to-equity ratio (to 1)	12 6	12 0	10 3

The following table illustrates the calculation of Ford Credit's managed leverage (in billions, except for ratios)

	December 31,		
	2004	2003	2002
Total debt	$ 144 3	$ 149 7	$ 140 3
Securitized off-balance sheet receivables outstanding (a)	37 7	49 4	71 4
Retained interest in securitized off-balance sheet receivables (b)	(9 5)	(13 0)	(17 6)
Adjustments for cash and cash equivalents	(12 7)	(15 7)	(6 8)
Adjustments for SFAS No 133	(3 2)	(4 7)	(6 2)
Total adjusted debt	$ 156 6	$ 165 7	$ 181 1
Total stockholder's equity (including minority interest)	$ 11 5	$ 12 5	$ 13 6
Adjustments for SFAS No 133	(0 1)	0 2	0 5

Total adjusted equity	$ 11 4	$ 12 7	$ 14 1
Managed debt-to-equity ratio (to 1)	13 7	13 0	12 8

(a) Includes securitized funding from discontinued operations

(b) Includes retained interest in securitized receivables from discontinued operations

Ford Credit believes that managed leverage, which is the result of adjustments to its financial statement leverage, is useful to its investors because it reflects the way Ford Credit manages its

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business Ford Credit retains interests in receivables sold in off-balance sheet securitization transactions, and with respect to subordinated retained interests, is exposed to credit risk Accordingly, Ford Credit considers securitization as an alternative source of funding and evaluates credit losses, receivables and leverage on a managed as well as a financial statement basis Ford Credit also deducts cash and cash equivalents because they generally correspond to excess debt beyond the amount required to support its operations In addition, Ford Credit adds its minority interests to its financial statement equity, because all of the debt of such consolidated entities is included in its total debt SFAS No 133 requires Ford Credit to make fair value adjustments to its assets, debt and equity positions to reflect the impact of interest rate instruments Ford Credit uses in connection with its term debt issuances and securitizations SFAS No 133 adjustments vary over the term of the underlying debt and securitized funding obligations based on changes in market interest rates Ford Credit generally repays its debt funding obligations as they mature As a result, Ford Credit excludes the impact of SFAS No 133 on both the numerator and denominator in order to exclude the interim effects of changes in market interest rates Accordingly, the managed leverage measure provides Ford Credit's investors with meaningful information regarding management's decision-making processes

Ford Credit's managed leverage strategy involves establishing a leverage level that it believes reflects the risk characteristics of its underlying assets In establishing a target leverage level, Ford Credit considers the characteristics of the receivables in its managed portfolio and the prevailing market conditions

At December 31, 2004, Ford Credit's managed leverage was 13 7 to 1, compared with 13 0 to 1 a year ago Ford Credit's dividend policy is based in part on its strategy to maintain managed leverage at the lower end of the 13-14 to 1 range Based on profitability and managed receivable levels, Ford Credit paid dividends of $4 3 billion in 2004 In the first quarter of 2005, Ford Credit expects to decrease its managed leverage to the lower end of its target range, and remain at the low end of the range throughout the year

Hertz

Hertz requires funding for the acquisition of revenue earning equipment, which consists of vehicles and industrial and construction equipment Hertz purchases this equipment in accordance with the terms of agreements negotiated with automobile and equipment manufacturers The financing requirements of Hertz are seasonal and are mainly explained by the seasonality of the travel industry Hertz' fleet size, and its related financing requirements, generally peak in the summer months, and decline during the winter months

Hertz maintains unsecured domestic and foreign commercial paper programs and a secured domestic commercial paper program to cover short-term funding needs, and also draws from bank lines, as a normal business practice, to fund international needs Hertz also is active in the domestic secured and unsecured medium-term and long-term debt markets and in the unsecured international medium-term debt market

Hertz has an asset-backed securitization ("ABS") program for its domestic car rental fleet to reduce its borrowing costs and enhance its financing flexibility As of December 31, 2004, $898 million was outstanding under the ABS program consisting of $298 million of commercial paper and $600 million of medium-term notes

At December 31, 2004, Hertz had committed credit facilities totaling $2 8 billion Of this amount, $1 3 billion represented global and other committed credit facilities ($708 million of which are available through June 30, 2009 and $560 million of which have various maturities of up to four years), $500 million consisted of a revolving credit line provided by Ford, which currently expires in

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June 2006, $215 million consisted of asset-backed letters of credit, and $814 million consisted of 364-day asset-backed commercial paper facilities

Total Company

Stockholders' Equity Our stockholders' equity was $16 billion at December 31, 2004, up $4 4 billion compared with December 31, 2003 The increase primarily reflected net income and foreign currency translation adjustments, offset partially by dividends and the change in our minimum pension liability For additional discussion of foreign currency translation adjustments, see Note 2 of the Notes to the Financial Statements

Pension We sponsor defined benefit pension plans for our employees in many countries Pursuant to our collective bargaining agreement with the UAW, under which most of our U S hourly employees are covered, we are contractually committed to provide specified levels of pension benefits to retirees covered by the contract These obligations give rise to significant expenses that are highly dependent on assumptions discussed in Note 22 of the Notes to our Financial Statements and under "Critical Accounting Estimates" below

Included in our Stockholders' Equity was a $4 billion adjustment for our worldwide minimum pension liability as of December 31, 2004 This was about $500 million greater than the 2003 adjustment, due to the decline in the funded status of our worldwide pension plans (i e , the amount by which the present value of projected benefit obligations exceeded the market value of pension plan assets) as of December 31, 2004, compared with December 31, 2003 The primary factor that contributed to the decline in the funded status was the decrease in discount rates at December 31, 2004 used to calculate the present value of benefit obligations compared with the prior year, partially offset by the actual return on plan assets for 2004 in excess of the expected asset return

Credit Ratings Our short- and long-term debt is rated by four credit rating agencies designated as nationally recognized statistical rating organizations ("NRSROs") by the Securities and Exchange Commission

- Dominion Bond Rating Service Limited ("DBRS"),
- Fitch, Inc ("Fitch"),
- Moody's Investors Service, Inc ("Moody's"), and
- Standard & Poor's Rating Services, a division of McGraw-Hill Companies, Inc ("S&P")

In several markets, locally recognized rating agencies also rate us A credit rating reflects an assessment by the rating agency of the credit risk associated with particular securities we issue, based on information provided by us and other sources Credit ratings are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by the assigning rating agency Each rating agency may have different criteria for evaluating company risk, and therefore ratings should be evaluated independently for each rating agency Lower credit ratings generally result in higher borrowing costs and reduced access to capital markets The NRSROs have indicated that our lower ratings are primarily a reflection of the rating agencies' concerns regarding our automotive cash flow and profitability, declining market share, excess industry capacity, industry pricing pressure and rising healthcare costs

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The following chart summarizes Ford's[a] credit ratings and the outlook assigned by the NRSROs since 2002

	DBRS (b)			Fitch			Moody's			S&P		
Date	**Long-Term**	**Short-Term**	**Trend**	**Long-Term**	**Short-Term**	**Outlook**	**Long-Term**	**Short-Term**	**Outlook**	**Long-Term**	**Short-Term**	**Outlook**
Jan 2002	A (low)	R-1 (low)	Stable	BBB+	F2	Negative	Baa1	P-2	Negative	BBB+	A-2	Negative
Oct 2002	A (low)	R-1 (low)	Negative	BBB+	F2	Negative	Baa1	P-2	Negative	BBB	A-2	Negative
Apr 2003	BBB (high)	R-1 (low)	Stable	BBB+	F2	Negative	Baa1	P-2	Negative	BBB	A-2	Negative
Nov 2003	BBB (high)	R-1 (low)	Stable	BBB+	F2	Negative	Baa1	P-2	Negative	BBB-	A-3	Stable
May 2004	BBB (high)	R-1 (low)	Stable	BBB+	F2	Stable	Baa1	P-2	Negative	BBB-	A-3	Stable

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(a) Moody's presently rates Ford Credit's long-term debt at "A3", and Hertz's long-term debt at "Baa2" All other May 2004 ratings and outlooks shown apply equally to Ford, Ford Credit, and Hertz

(b) NRSRO designation granted on February 27, 2003

The ratings and trend assigned to Ford and Ford Credit by DBRS have been in effect since April 2003 and were confirmed by DBRS in October 2004 DBRS changed the trend of the long-term rating for Hertz to Stable from Negative and confirmed the ratings in July 2004 Fitch changed Ford's rating outlook to Stable from Negative in May 2004, and the outlook was affirmed by Fitch in October 2004 The ratings assigned by Fitch have been in effect since January 2002 and were affirmed by Fitch in October 2004 The ratings and outlook assigned by Moody's have been in effect since January 2002 and were affirmed by Moody's in October 2004 The ratings and outlook assigned by S&P have been in effect since November 2003 and were affirmed by S&P in October 2004

OUTLOOK

We have set and communicated certain planning assumptions, operational metrics and financial milestones for 2005, shown below

Industry Volume (incl heavy trucks)	**Planning Assumptions**
U S	17 2 million units
Europe	17 3 million units

Operation Metrics	**2005 Milestones**
Quality	Improve in all regions
Market share	Improve in all regions
Automotive cost performance*	Hold costs flat
Capital spending	$7 billion or lower

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* At constant volume, mix and exchange, excluding special items and discontinued operations

Our projection of first quarter 2005 production is as follows

Business Unit	First Quarter 2005 Vehicle Unit Production	Over/(Under) First Quarter 2004
Ford North America	910,000	(98,000)

Ford Europe	460,000	8,000
PAG	200,000	(12,000)

Our current projection of second quarter 2005 production for Ford North America is 940,000 vehicles (290,000 cars and 650,000 trucks) In the second quarter of 2004, Ford North America produced 951,000 vehicles (252,000 cars and 699,000 trucks)

On October 22, 2004, President Bush signed into law *The American Jobs Creation Act of 2004* (the "Act") The most significant component of the Act was the repeal of the extraterritorial income ("ETI") exclusion and the replacement of ETI with a domestic deduction for a range of broadly

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defined domestic production activities The Act also provides for a one-year period to repatriate certain foreign earnings at a special tax rate We continue to evaluate the application of the repatriation provisions If we determine that we will repatriate earnings pursuant to these provisions, a favorable earnings impact would result We expect to make a determination about the applicability of the repatriation provisions in the last quarter of 2005 The other provisions of the Act are not expected to have a material impact on future earnings We expect our 2005 full-year effective tax rate to be between 25% and 28%, excluding any potential effect of the repatriation-of-foreign-earnings provisions of the Act

As disclosed in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, we have been in discussions with Visteon regarding changes to improve the efficiency and operating results of both companies, and these discussions are ongoing Actions that may result from these discussions could include modifications to our existing commercial arrangements with Visteon, including modifications with respect to Visteon's present obligation to reimburse us for the costs of the approximately 17,700 Ford employees assigned to Visteon These modifications likely would result in a significant charge to earnings in the period in which they occur, but would not be expected to have a material adverse impact on future ongoing results of operations

In order that Visteon continues to supply certain components without cost surcharges to us, on March 10, 2005, we agreed to provide Visteon with the following financial assistance at least through the end of 2005

- relieving Visteon of a portion (about $25 million per month) of its obligation to reimburse us for the costs of our employees assigned to Visteon (e g , wage costs),
- reducing by about one-fourth the number of days within which we are required to make payment to Visteon for materials and components that we purchase from Visteon, and
- acquiring up to about $150 million of new machinery and equipment for use by Visteon necessary for its production of components for us

Any broader agreement that might result from our ongoing discussions with Visteon could substantially modify this and any other existing Visteon agreements

Our earnings per share guidance and outlook for pre-tax profits excluding special items by business unit, sector and total company remain unchanged from that disclosed in our Current Report on Form 8-K dated January 25, 2005

Risk Factors

Statements included or incorporated by reference herein may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 These statements involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those stated, including, without limitation

- greater price competition resulting from currency fluctuations, industry overcapacity or other factors,
- a significant decline in industry sales, particularly in the U S or Europe, resulting from slowing economic growth, geo-political events or other factors,
- lower-than-anticipated market acceptance of new or existing products,
- economic distress of suppliers that may require us to provide financial support or take other measures to ensure supplies of materials,
- work stoppages at Ford or supplier facilities or other interruptions of supplies,

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- the discovery of defects in vehicles resulting in delays in new model launches, recall campaigns or increased warranty costs,
- increased safety, emissions, fuel economy or other regulation resulting in higher costs and/or sales restrictions,
- unusual or significant litigation or governmental investigations arising out of alleged defects in our products or otherwise,
- worse-than-assumed economic and demographic experience for our postretirement benefit plans (e g , investment returns, interest rates, health care cost trends, benefit improvements),
- currency or commodity price fluctuations, including rising steel prices,
- changes in interest rates,
- a market shift from truck sales in the U S ,
- economic difficulties in any significant market,
- higher prices for or reduced availability of fuel,
- labor or other constraints on our ability to restructure our business,
- a change in our requirements or obligations under long-term supply arrangements pursuant to which we are obligated to purchase minimum quantities or a fixed percentage of output or pay minimum amounts,
- credit rating downgrades,
- inability to access debt or securitization markets around the world at competitive rates or in sufficient amounts,
- higher-than-expected credit losses,
- lower-than-anticipated residual values for leased vehicles,
- increased price competition in the rental car industry and/or a general decline in business or leisure travel due to terrorist attacks, acts of war, epidemic disease or measures taken by governments in response thereto that negatively affect the travel industry, and
- our inability to implement the Revitalization Plan

CRITICAL ACCOUNTING ESTIMATES

We consider an accounting estimate to be critical if 1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and 2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and the Audit Committee has reviewed the foregoing disclosure In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above Changes in estimates used in these and other items could have a material impact on our financial statements

Warranty and Additional Service Actions

Nature of Estimates Required The estimated warranty and additional service action costs are accrued for each vehicle at the time of sale Estimates are principally based on assumptions

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regarding the lifetime warranty costs of each vehicle line and each model year of that vehicle line, where little or no claims experience may exist In addition, the number and magnitude of additional service actions expected to be approved, and policies related to additional service actions, are taken into consideration Due to the uncertainty and potential volatility of these estimated factors, changes in our assumptions could materially affect net income

Assumptions and Approach Used Our estimate of warranty and additional service action obligations is reevaluated on a quarterly basis Experience has shown that initial data for any given model year can be volatile, therefore, our process relies upon long-term historical averages until sufficient data are available As actual experience becomes available, it is used to modify the historical averages to ensure that the forecast is within the range of likely outcomes Resulting balances are then compared with present spending rates to ensure that the accruals are adequate to meet expected future obligations

See Note 26 of the Notes to the Financial Statements for more information regarding costs and assumptions for warranties and additional service actions

Pensions

Nature of Estimates Required The measurement of our pension obligations, costs and liabilities is dependent on a variety of assumptions used by our actuaries These assumptions include estimates of the present value of projected future pension payments to all plan participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience These assumptions may have an effect on the amount and timing of future contributions The plan trustee conducts an independent valuation of the fair value of pension plan assets

Assumptions and Approach Used The assumptions used in developing the required estimates include the following key factors

- Discount rates
- Salary growth
- Retirement rates
- Expected contributions
- Inflation
- Expected return on plan assets
- Mortality rates

We base the discount rate assumption on investment yields available at year-end on long-term bonds rated Aa- or better In the United States we use the Moody's Aa long-term bond yield as the initial indicator of these yields We also consider the yield derived from matching projected pension payments with maturities of a portfolio of available bonds rated Aa- or better Our inflation assumption is based on an evaluation of external market indicators The salary growth assumption reflects our long-term actual experience, the near-term outlook and assumed inflation The expected return on plan assets assumption reflects various long-run inputs, including historical plan returns and peer data, as well as inputs from a range of internal and external advisors for capital market returns, inflation and other variables, adjusted for specific aspects of our strategy The expected amount and timing of contributions is based on an assessment of minimum requirements, and additional amounts based on cash availability and other considerations (e g , funded status, avoidance of Pension Benefit Guaranty Corporation ("PBGC") penalty premiums and tax efficiency) Retirement and mortality rates are developed to reflect actual and projected plan experience Plan obligations and costs are based on existing retirement plan provisions No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed (e g , in labor contracts) The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses Unamortized gains and losses are amortized over future periods and, therefore, generally affect our recognized expense in future periods

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See Note 22 of the Notes to the Financial Statements for more information regarding costs and assumptions for employee retirement benefits

Sensitivity Analysis The December 31, 2004 funded status of our pension plans is affected by December 31, 2004 assumptions Pension expense for 2004 is based on the plan design and assumptions as of December 31, 2003 Note that these sensitivities may be asymmetric, and are specific to 2004 They also may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown The effect of the indicated increase/(decrease) in selected factors is shown below (in millions)

		Increase/(Decrease) in			
		December 31, 2004			
	Percentage Point Change	U S Plans Funded Status	Non-U S Plans Funded Status	Equity	2004 U S Expense
Discount rate	+/- 1 pt	$4,490/$(5,240)	$3,960/$(5,000)	$3,320/$(6,970)	$(20)/$170
Actual return on assets	+/- 1	350/(350)	180/(180)	200/(610)	—
Expected return on assets	+/- 1	—	—	—	(360)/360

The foregoing indicates that changes in the discount rate and return on assets can have a significant effect on the funded status of our pension plans, stockholders' equity and expense As stated above, we base the discount rate assumption on investment yields available at year-end on long-term bonds rated Aa- or better We cannot predict these bond yields or investment returns and, therefore, cannot reasonably estimate whether adjustments to our stockholders' equity for minimum pension liability in subsequent years will be significant

Other Postretirement Benefits (Retiree Health Care and Life Insurance)

Nature of Estimates Required The measurement of our obligations, costs and liabilities associated with other postretirement benefits (i e , retiree health care and life insurance) requires that we make use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as health care cost increases, salary increases and demographic experience, which may have an effect on the amount and timing of future payments

Assumptions and Approach Used The assumptions used in developing the required estimates include the following key factors

- Discount rates
- Salary growth
- Retirement rates
- Expected contributions
- Health care cost trends
- Expected return on plan assets
- Mortality rates

Our health care cost trend assumptions are developed based on historical cost data, the near-term outlook, efficiencies and other cost-mitigation actions (including eligibility management, employee education and wellness, competitive sourcing and appropriate employee cost sharing) and an assessment of likely long-term trends We base the discount rate assumption on investment yields available at year-end on corporate long-term bonds rated Aa- or better We use the Moody's Aa long-term bond yield as the initial indicator of these yields We also consider the yield derived from matching projected other postretirement benefit payments with maturities of a portfolio of available bonds rated Aa- or better The salary growth assumptions reflect our long-term actual experience, the near-term outlook and assumed inflation The expected return on plan assets assumption reflects various long-run inputs, including historical plan returns and peer data, as well as inputs from a range of internal and external advisors for capital market returns, inflation and other variables, adjusted for specific aspects of our strategy The expected amount and timing of contributions is based on an assessment of cash availability and other considerations (e g , funded

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status and tax efficiency) Retirement and mortality rates are developed to reflect actual and projected plan experience Plan obligations and costs are based on existing retirement plan provisions No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed (e g , in labor contracts) The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses Unamortized gains and losses are amortized over future periods and, therefore, generally affect our recognized expense in future periods

See Note 22 of the Notes to the Financial Statements for more information regarding costs and assumptions for other postretirement benefits

Sensitivity Analysis The December 31, 2004 postretirement benefits obligation is affected by December 31, 2004 assumptions Postretirement benefit expense for 2004 is based on the plan design and assumptions as of December 31, 2003 Note that these sensitivities may be asymmetric, and are specific to 2004 They are not additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown The effect of the indicated increase/(decrease) in selected assumptions is shown below (in millions)

		Effect on U S and Canadian Plans Increase/(Decrease)	
Assumption	**Percentage Point Change**	**December 31, 2004 Obligation**	**2004 Expense**
Discount rate	+/- 1 0 pt	$(5,200)/$6,200	$(340)/$390
Health care cost trends — total expense	+/- 1 0	5,200/(4,200)	580/(460)
Health care cost trends — service and interest expense	+/- 1 0	5,200/(4,200)	330/(260)

Allowance for Credit Losses — Financial Services Sector

The allowance for credit losses is our estimate of credit losses related to impaired finance receivables and operating leases as of the date of the financial statements We monitor credit loss performance monthly and we assess the adequacy of our allowance for credit losses quarterly Because credit losses can vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain

Nature of Estimates Required We estimate the credit losses related to impaired finance receivables and operating leases by evaluating several factors including historical credit loss trends, the credit quality of our present portfolio, trends in historical and projected used vehicle values and general economic measures

Assumptions and Approach Used We make projections of two key assumptions

- *Frequency* — the number of finance receivables and operating lease contracts that we expect to default over a period of time, measured as repossessions, and

- *Loss severity* — the expected difference between the amount a customer owes us when we charge-off the finance contract and the amount we receive, net of expenses, from selling the repossessed vehicle, including any recoveries from the customer

We use these assumptions to assist us in setting our allowance for credit losses See Note 13 of the Notes to the Financial Statements for more information regarding our allowance for credit losses

Sensitivity Analysis We believe the present level of our allowance for credit losses adequately reflects credit losses related to impaired finance receivables and operating leases However, changes in the assumptions used to derive frequency and severity would affect the allowance for credit losses Over the past twenty years, repossession rates for our Ford, Lincoln and Mercury brand U S retail and lease portfolio have varied between 2% and 4%

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The effect of the indicated increase/ decrease in the assumptions is shown below for Ford, Lincoln, and Mercury brand vehicles in the U S (in millions)

		Increase/(Decrease)	
Assumption	Percentage Point Change	December 31, 2004 Allowance for Credit Losses	2004 Expense
Repossession rates	+/- 0 1 pt	$50/$(50)	$50/$(50)
Loss severity	+/- 1 0	15/(15)	15/(15)

Changes in our assumptions affect *Provision for credit losses* on our income statement and the *Allowance for credit and insurance losses* on our balance sheet

Accumulated Depreciation on Vehicles Subject to Operating Leases — Financial Services Sector

Accumulated depreciation on vehicles subject to operating leases reduces the value of the leased vehicles in our operating lease portfolio from their original acquisition value to their expected residual value at the end of the lease term

We monitor residual values each month, and we review the adequacy of our accumulated depreciation on a quarterly basis If we believe that the expected residual values for our vehicles have changed, we revise depreciation to ensure that our net investment in the operating leases (equal to our acquisition value of the vehicles minus accumulated depreciation) will be adjusted to reflect our revised estimate of the expected residual value at the end of the lease term Such adjustments to depreciation expense would result in a change in the depreciation rates of the vehicles subject to operating leases and are recorded on a straight-line basis

Each lease customer has the option to buy the leased vehicle at the end of the lease or to return the vehicle to the dealer If the customer returns the vehicle to the dealer, the dealer may buy the vehicle from us or return it to us Over the last three years, about 60% to 70% of Ford Credit's North America operating lease vehicles have been returned to us

Nature of Estimates Required Each operating lease in our portfolio represents a vehicle we own that has been leased to a customer At the time we purchase a lease, we establish an expected residual value for the vehicle We estimate the expected residual value by evaluating historical auction values, historical return rates for our leased vehicles, industry-wide used vehicle prices, our marketing plans and vehicle quality data

Assumptions and Approach Used Our accumulated depreciation on vehicles subject to operating leases is based on our assumptions of

- *Auction value* — the market value of the vehicles when we sell them at the end of the lease, and
- *Return rates* — the percentage of vehicles that will be returned to us at lease end

See Note 11 of the Notes to the Financial Statements for more information regarding accumulated depreciation on vehicles subject to operating leases

Sensitivity Analysis For returned vehicles, we face a risk that the amount we obtain from the vehicle sold at auction will be less than our estimate of the expected residual value for the vehicle At year-end 2004, if future auction values for Ford, Lincoln and Mercury brand vehicles in the U S with 24 to 36 month operatmg lease terms were to decrease by one percent from our present estimates, the impact would be to increase our depreciation on these vehicles by about $45 million Similarly, if return rates for our existing portfolio of 24 to 36 month term Ford, Lincoln and Mercury brand vehicles in the U S were to increase by one percentage point from our present estimates, the impact would be to increase our depreciation on these vehicles by about $5 million These increases

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in depreciation would be charged to depreciation expense during the 2005 through 2007 period so that the net investment in operating leases at the end of the lease term for these vehicles is equal to the revised expected residual value Adjustments to the amount of accumulated depreciation on operating leases will be reflected on our balance sheet as *Net investment in operating leases* and on the income statement in *Depreciation,* in each case under the Financial Services sector

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

In December 2004, the FASB issued a revision of Statement of Financial Accounting Standards ("SFAS") No 123, *Accounting for Stock — Based Compensation* This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award In addition, this statement amends SFAS No 95, *Statement of Cash Flows,* to require that excess tax benefits be reported as a financing cash inflow rather than a reduction of taxes paid Effective January 1, 2003, we adopted the fair value recognition provision of SFAS No 123 under a modified prospective method to all unvested employee awards as of January 1, 2003 and all new awards granted to employees after January 1, 2003 and forward Although we are assessing its impact, we do not expect adoption of this revision to the standard to have a material impact on our consolidated financial position or results of operations

In November 2004, the FASB issued SFAS No 151, *Inventory Costs — an amendment of ARB No 43, Inventory Pricing,* to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material ARB No 43 stated that the above-mentioned items under some circumstances are so abnormal that they require treatment as current period charges SFAS No 151 requires that items such as idle facility expense, excessive spoilage, double freight, and handling costs, be treated as current — period charges, regardless of whether they meet the criterion of "so abnormal " We have applied ARB No 43 consistent with SFAS No 151 and we do not expect any impact on our consolidated financial position or results of operations

In December 2004, the FASB issued SFAS No 153, *Accounting for Nonmonetary Assets — an amendment of APB Opinion No 29* APB No 29 required