FORD MOTOR CO
Form 10-K
February 28, 2007

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

FORM 10-K

(Mark One)

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2006

or

o **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	**38-0549190**
(State of incorporation)	*(I.R.S. employer identification no.)*
One American Road, Dearborn, Michigan	**48126**
(Address of principal executive offices)	*(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
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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yesþ Noo

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or Section 15(d) of the Act.

Yeso Noþ

Indicate by check mark if 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 þ No o

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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

As of June 30, 2006, Ford had outstanding 1,809,771,835 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 ($6.30 per share), the aggregate market value of such Common Stock was $11,401,562,561. 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, 2006 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 10, 2007 (our Proxy Statement), which is incorporated by reference under various Items of this Report as indicated below.

As of February 12, 2007, Ford had outstanding 1,821,686,422 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 ($8.65 per share), the aggregate market value of such Common Stock was $15,757,587,550.

DOCUMENTS 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.

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PART I

ITEM 1. *Business*

Ford Motor Company (referred to herein as Ford , the Company , we , our or us) was incorporated in Delaware 1919. We acquired the business of a Michigan company, also known as Ford Motor Company, that had been 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 vehicles.

In addition to the information about Ford and its subsidiaries contained in this Annual Report on Form 10-K for the year ended December 31, 2006 (2006 Form 10-K Report or 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 website and clicking on the Corporate Governance link.

Upon accessing our website and clicking on the Corporate Governance link, viewers will see a list of corporate governance documents and may click on the desired document. 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 may 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 that is provided on our website, all of our recent 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. This includes recent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, as well as any amendments to those Reports. Also, recent Section 16 filings 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 made 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 on to view SEC Filings

Viewers will then see a list of reports filed with the SEC and may click on the desired document.

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.

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ITEM 1. Business (continued)

OVERVIEW

Segments. We review and present our business results in two sectors: Automotive and Financial Services. Within these sectors, our business is divided into reportable segments 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.

Our Automotive and Financial Services segments are described in the table below:

Business Sector	Reportable Segments	Description
Automotive:	Ford North America	Primarily includes the sale of Ford, Lincoln and Mercury brand vehicles and related service parts in North America (the United States, Canada and Mexico), together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Ford South America	Primarily includes the sale of Ford-brand vehicles and related service parts in South America, together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Ford Europe	Primarily includes the sale of Ford-brand vehicles and related service parts in Europe, Turkey and Russia, together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Premier Automotive Group	Primarily includes the sale of Premier Automotive Group (PAG) 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 approximately 33.4%) and certain of our Mazda-related investments.
Financial Services:	Ford Motor Credit Company	Primarily includes vehicle-related financing, leasing, and insurance.

We provide financial information (such as revenues, income, and assets) for each of these business sectors and reportable 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 24 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.

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ITEM 1. Business (continued)

AUTOMOTIVE SECTOR

General

We sell cars and trucks throughout the world. In 2006, we sold approximately 6,597,000 vehicles at wholesale throughout the world. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations for additional discussion of wholesale unit volumes. Our 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, the substantial majority of which are independently owned. At December 31, 2006, the approximate number of dealers and distributors worldwide distributing our vehicle brands was as follows:

Brand	Number of Dealerships at December 31, 2006*
Ford	9,480
Mercury	1,971
Lincoln	1,515
Volvo	2,352
Land Rover	1,376
Jaguar	871
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 23% and 31% 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 and other channels, 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 general economic conditions (among other factors) over which we have little control. This is especially so because vehicles are durable goods, which provide consumers latitude in determining whether and when to replace an existing vehicle. The decision whether and when to make a vehicle purchase may be affected significantly by slowing economic growth, geo-political events, and other factors (including the cost of purchasing and operating cars and trucks and the availability and cost of credit and fuel). Accordingly, the number of cars and trucks sold (commonly referred to as industry demand) may vary substantially from year to year. The automotive industry is also a highly competitive, cyclical business that has a wide and growing variety of product offerings from a growing number of increasingly global manufacturers.

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

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ITEM 1. Business (continued)

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

wholesale unit volumes;

the mix of vehicles and options sold;

the margin of profit on each vehicle sold;

the level of incentives (e.g., 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 we (like other manufacturers) have a high proportion of costs that are relatively fixed (including labor costs), small changes in wholesale unit volumes may 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 maintain their market share 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 may 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). See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations for additional discussion of revenue recognition practices. We manage our vehicle production schedule based on a number of factors, including dealer stock levels (i.e., the 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, North American production is higher in the first half of the year to meet demand in the spring and summer, which are usually the strongest sales months of the year. Third quarter production is typically the lowest of the year, generally reflecting the annual two-week vacation shutdown of our manufacturing facilities during this quarter. As a result, operating results for the third quarter typically are less favorable than those of other quarters.

Raw Materials. We purchase a wide variety of raw materials for use in 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 always risks and uncertainties with respect to the supply of 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 and energy price trends, and Item 7A. Quantitative and Qualitative Disclosures About Market Risk Commodity Price Risk for a discussion of commodity price risks.

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 methods, filing U.S. and international patent applications to protect technology and improvements that we consider important to the development of our business.

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 13,000 active patents and pending patent applications globally, with an average age for patents in our active patent portfolio of just over 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 that these patents, patent applications and know-how, in the aggregate, are 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. We also 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, a loss of any of which could have a material adverse effect on our business.

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ITEM 1. Business (continued)

Warranty Coverage and Additional Service Actions. We presently provide warranties on vehicles we sell. Warranties are offered for specific periods of time and/or mileage, and vary depending upon the type of product, usage of the product and the geographic location of its sale. Types of warranty coverage offered include base coverage (e.g., bumper-to-bumper coverage in the United States on Ford-brand vehicles for 36 months or 36,000 miles, whichever occurs first), safety restraint coverage, and corrosion coverage. Beginning with 2007 model-year passenger cars and light trucks, Ford extended the powertrain warranty coverage offered on Ford, Lincoln and Mercury vehicles sold in the United States, Canada and select U.S. export markets (e.g., powertrain coverage for certain vehicles sold in the United States from three years or 36,000 miles to five years or 60,000 miles on Ford and Mercury brands and from four years or 50,000 miles to six years or 70,000 miles on the Lincoln brand). In compliance with regulatory requirements, we also provide emissions-defects and emissions-performance warranty coverage. Pursuant to these warranties, Ford will repair, replace, or adjust all parts on a vehicle that are defective in factory-supplied materials or workmanship during the specified warranty period.

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 and additional service action costs for each vehicle sold by us are accrued for at the time of sale. Accruals for estimated warranty and additional service action costs are based on historical experience and subject to adjustment from time to time depending on actual experience. Warranty accrual adjustments required when actual warranty claim experience differs from our estimates may have a material impact on our results of operations and financial condition.

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 27 of the Notes to the Financial Statements.

United States

Sales Data. The following table shows U.S. industry sales of cars and trucks for the years indicated (in millions of units):

	U.S. Industry Sales* Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Cars	8.1	7.9	7.7	7.8	8.2
Trucks	9.0	9.6	9.6	9.2	8.9
Total	17.1	17.5	17.3	17.0	17.1

* Throughout this section, industry sales include sales of heavy trucks.

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 cars or trucks across vehicle manufacturers. In the tables above and below, we have classified crossover vehicles as sport utility vehicles. In addition, we have classified as premium all of our luxury cars, regardless of size; premium sport utility vehicles and crossovers are included in

trucks. Annually, we conduct a comprehensive review of many factors to determine the appropriate classification of vehicle segments and the vehicles within those segments, and this review occasionally results in a change of classification for certain vehicles.

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ITEM 1. Business (continued)

The following tables show the proportion of U.S. 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 United States) for the years indicated:

U.S. Industry Vehicle Mix of Sales by Segment
Years Ended December 31,

	2006	2005	2004	2003	2002
CARS					
Small	19.8%	17.9%	16.9%	17.3%	18.3%
Medium	12.4	12.3	13.1	14.4	15.2
Large	7.4	7.4	6.8	6.6	7.2
Premium	7.5	7.8	7.7	7.7	7.4
Total U.S. Industry Car Sales	47.1	45.4	44.5	46.0	48.1
TRUCKS					
Compact Pickup	3.5%	3.9%	4.0%	4.4%	4.6%
Bus/Van	7.8	8.1	8.5	8.2	8.5
Full-Size Pickup	13.3	14.6	14.7	14.0	13.1
Sport Utility Vehicles	25.2	25.6	26.1	25.7	24.3
Medium/Heavy	3.1	2.4	2.2	1.7	1.4
Total U.S. Industry Truck Sales	52.9	54.6	55.5	54.0	51.9
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,

	2006	2005	2004	2003	2002
CARS					
Small	11.8%	10.9%	10.2%	11.4%	12.5%
Medium	12.1	7.7	8.7	10.4	11.9
Large	7.7	8.3	5.0	4.8	4.4
Premium	6.4	6.3	7.1	7.5	8.3
Total Ford U.S. Car Sales	38.0	33.2	31.0	34.1	37.1
TRUCKS					
Compact Pickup	3.2%	3.8%	4.7%	6.0%	6.3%
Bus/Van	8.0	8.4	8.8	8.4	9.1
Full-Size Pickup	27.7	28.8	28.2	24.3	22.5
Sport Utility Vehicles	22.5	25.3	26.9	27.0	24.8
Medium/Heavy	0.6	0.5	0.4	0.2	0.2
Total Ford U.S. Truck Sales	62.0	66.8	69.0	65.9	62.9
Total Ford U.S. Vehicle Sales	100.0%	100.0%	100.0%	100.0%	100.0%

As the tables above indicate, the general shift from cars to trucks for both industry sales and Ford sales is beginning to shift back toward cars. Prior to 2005, both industry and Ford s truck mix had been increasing since 2002, reflecting higher sales of sport utility vehicles and full-size pickups. In 2006, in line with industry trends, Ford s sport utility vehicle sales as a percent of total sales declined, while medium and small car percentages increased. The increase in 2006 in the proportion of medium cars sold by Ford largely reflects the introduction of new models in this segment (e.g., Ford Fusion and Mercury Milan).

Market Share Data. The competitive environment in the United States has intensified and is expected to continue to intensify as Japanese and Korean manufacturers increase imports to the United States and production capacity in North America. Our principal competitors in the United States include General Motors Corporation (General Motors), DaimlerChrysler Corporation (DaimlerChrysler), Toyota Motor Corporation (Toyota), Honda Motor Company (Honda) and Nissan Motor Company (Nissan). The following tables show changes in U.S. car and truck market share for Ford (including all of our brands sold in the United States), and for the other five leading vehicle manufacturers for the years indicated.

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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 (a) Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Ford	6.4%	6.1%	6.1%	6.9%	7.8%
General Motors	10.0	10.2	10.7	11.6	12.1
DaimlerChrysler	5.2	5.1	4.8	4.5	4.8
Toyota	8.6	7.4	6.3	6.0	5.6
Honda	4.9	4.8	4.9	4.9	4.9
Nissan	3.2	3.3	3.0	3.0	2.9
All Other (b)	8.8	8.5	8.7	9.1	10.0
Total U.S. Car Deliveries	47.1%	45.4%	44.5%	46.0%	48.1%

	U.S. Truck Market Shares (a) Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Ford	10.7%	12.1%	13.2%	13.6%	13.3%
General Motors	14.1	15.6	16.4	16.4	16.2
DaimlerChrysler	8.8	9.4	9.2	9.3	9.3
Toyota	6.3	5.6	5.6	5.0	4.6
Honda	3.9	3.6	3.2	3.1	2.4
Nissan	2.8	2.9	2.7	1.7	1.4
All Other(b)	6.3	5.4	5.2	4.9	4.7
Total U.S. Truck Deliveries	52.9%	54.6%	55.5%	54.0%	51.9%

	U.S. Combined Car and Truck Market Shares (a) Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Ford	17.1%	18.2%	19.3%	20.5%	21.1%
General Motors	24.1	25.8	27.1	28.0	28.3
DaimlerChrysler	14.0	14.5	14.0	13.8	14.1
Toyota	14.9	13.0	11.9	11.0	10.2
Honda	8.8	8.4	8.1	8.0	7.3
Nissan	6.0	6.2	5.7	4.7	4.3
All Other(b)	15.1	13.9	13.9	14.0	14.7
Total U.S. Car and Truck Deliveries	100.0%	100.0%	100.0%	100.0%	100.0%

(a) All U.S. sales data are based on publicly available

information from the media and trade publications.

(b) All Other includes primarily companies based in Korea, other Japanese manufacturers and various European manufacturers, and, with respect to the U.S. Truck Market Shares table and U.S. Combined Car and Truck Market Shares table, includes heavy truck manufacturers.

Our decline in overall market share is primarily the result of several factors, including increased competition, a recent industry shift away from our stronger segments (e.g., traditional sport utility vehicles and full-size pickups) and the discontinuation of a number of our vehicle lines over the last several years.

Fleet Sales. The sales data and market share information provided above include both retail and fleet sales. Fleet sales include sales to daily rental car companies, commercial fleet customers, leasing companies and governments. The table below shows our fleet sales (including all brands) in the United States, and the amount of those sales as a percentage of our total U.S. car and truck sales for the last five years (in thousands):

	Ford Fleet Sales Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Daily Rental Units	453	450	429	444	459
Commercial and Other Units	287	263	248	227	252
Government Units	162	141	133	124	123
Total Fleet Units	902	854	810	795	834
Percent of Ford s total U.S. car and truck sales	31%	27%	24%	23%	23%

Fleet sales increased in 2006, reflecting industry strength in the commercial and government segments. Sales to daily rental car companies were constant in 2006 compared with 2005. In 2007, sales to daily rental car companies should decrease significantly, reflecting the discontinuance of the Ford Taurus sedan and Freestar minivan models in 2006, and our strategy to concentrate on more profitable retail sales.

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ITEM 1. Business (continued)

Europe

Market Share Information. Outside of the United States, Europe is our largest market for the sale of cars and trucks. The automotive industry in Europe is intensely competitive. Our principal competitors in Europe include General Motors, Volkswagen A.G. Group, PSA Group, Renault Group, and Fiat SpA. For the past 10 years, the top six manufacturers have collectively held between 70% and 76% of the total market. This competitive environment is expected to intensify further as Japanese and Korean manufacturers increase their production capacity in Europe, and as other manufacturers of premium brands (e.g., BMW, Mercedes Benz and Audi) continue to broaden their product offerings.

For purposes of this discussion, 2006 market data are based on estimated registrations currently available; percentage change is measured from actual 2005 registrations. We track industry sales in Europe for the following 19 markets: Britain, Germany, France, Italy, Spain, Austria, Belgium, Ireland, Netherlands, Portugal, Switzerland, Finland, Sweden, Denmark, Norway, Czech Republic, Greece, Hungary and Poland. In 2006, vehicle manufacturers sold approximately 17.8 million cars and trucks in the 19 markets we track in Europe, down 1.2% from 2005 levels. Ford s combined car and truck market share in Europe (including all of our brands sold in Europe) in 2006 was 10.6% (down 0.1 percentage points from 2005).

Britain and Germany are our most important markets within Europe. Any change in the British or German market has a significant effect on our total European automotive profits. For 2006 compared with 2005, total industry sales were down 3.3% in Britain and up 4.3% in Germany. Our combined car and truck market share in these markets (including all of our brands sold in these markets) in 2006 was 19.8% in Britain (up 0.3 percentage points from the previous year), and 8.2% in Germany (down 0.4 percentage points from the previous year). In particular, the market share for Ford-brand vehicles in Britain grew by 0.6 percentage points in 2006 the first significant increase in share for the Ford brand in Britain in recent years.

Although not included in the primary 19 markets above, several additional markets in the region contribute to our Ford Europe segment results. Ford s share of the Turkish market increased by 0.1 percentage points to 17.1% the fifth year in a row that the Ford brand has led the market in sales in Turkey. We also are experiencing strong sales in Russia, where sales of Ford-brand vehicles increased approximately 92% to 116,000 units in 2006.

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, since October 2005, not their location. Under either system, the 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 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 may subcontract the work to independent repair shops that meet reasonable criteria set by the manufacturer. These authorized repair facilities may perform warranty and recall work, in addition to other repair and maintenance work. While a manufacturer may continue to require the use of its parts in warranty and recall work, the repair facility may use parts made by others that are of comparable quality for all other repair work. We have negotiated and implemented 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 rules, the Commission intends to increase competition and narrow 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 segments. We anticipate that this trend may continue as dealers and parts suppliers become increasingly organized and established.

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ITEM 1. Business (continued)

Other Markets

Canada and Mexico. Canada and Mexico also are important markets for us. In Canada, industry sales of new cars and trucks in 2006 were approximately 1.7 million units, up 2.2% from 2005 levels. Industry sales of new cars and trucks in Mexico for 2006 were approximately 1.2 million units, up 1.3% from 2005. Our combined car and truck market share (including all of our brands sold in these markets) in 2006 was 14.6% in Canada (up 0.7 percentage points from the previous year), and 15.5% in Mexico (down 1.3 percentage points from the previous year).

South America. Brazil, Argentina and Venezuela are our principal markets in South America. The economic environment in these countries has been relatively stable in recent years. The 2006 and 2005 results have been favorably influenced by continued improvements in economic conditions, political stability and government actions to reduce inflation and interest rates. Industry sales in 2006 were approximately 1.9 million units in Brazil (up 12.4% from the previous year), approximately 439,000 units in Argentina (up 16.9% from the previous year), and approximately 336,000 units in Venezuela (up 46.7% from the previous year). Our combined car and truck share in these markets (including all of our brands sold in these markets) in 2006 was 11.5% in Brazil (down 1.0 percentage points from the previous year), 14.6% in Argentina (down 0.8 percentage points from the previous year), and 18.4% in Venezuela (up 0.7 percentage points from the previous year).

Asia Pacific. Australia, Thailand, South Africa, and Taiwan are our principal markets in this region. Details of preliminary 2006 and actual 2005 industry volumes and our combined car and truck market share for these countries (including sales of all of our brands) are shown in the table below:

	Industry Volumes (in thousands)				Corporate Market Share		
			2006 Over/(Under) 2005				2006 Over/(Under) 2005
	2006	2005			2006	2005	
Australia	963	988	(25)	(3)%	11.9%	14.9%	(3.0) pts.
South Africa	641	565	76	13%	10.8%	10.5%	0.3 pts.
Taiwan	366	514	(148)	(29)%	14.8%	11.0%	3.8 pts.
Thailand	673	700	(27)	(4)%	2.9%	4.2%	(1.3) pts.

We have an ownership interest in Mazda Motor Corporation (Mazda) of approximately 33.4%, and account for Mazda on an equity basis. Mazda s market share in the Asia Pacific region was 2.9% in 2006. 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 crossover in late 2004 and the Fiesta in late 2005. 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 Mazda Automobile Corporation, Ltd. (CFMA) is a joint venture between Ford (35% partner), Mazda (15% partner), and the Chongqing Changan Automobile Co., Ltd. (Changan) (50% partner). CFMA s first assembly plant, located in Chongqing, became operational and began producing the Ford Fiesta in January 2003, and the Ford Mondeo later that year. The Ford Focus was launched in 2005, and the Mazda3 and Volvo S40 were launched in 2006. We also announced in 2003 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 CFMA s Chongqing plant from 50,000 units per year to about 200,000 units per year. It will also support the establishment of a second assembly plant and a new engine plant located in Nanjing. We began construction of these new facilities in 2005, with expected completion in 2007. Initial capacity at the new assembly facility is expected to be about 160,000 units annually. In addition, we have a 30% interest in Jiangling Motors Corporation, Ltd., which has operations in Nanchang and assembles light commercial vehicles, including the Ford Transit, for distribution in China. We also import Jaguar, Volvo, Land Rover,

and select Ford vehicles into China. We continue to operate a purchasing office in China to procure components for operations outside of China. For additional discussion of our joint ventures in China, see Item 2. Properties.

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ITEM 1. Business (continued)

FINANCIAL SERVICES SECTOR

Ford Motor Credit Company

Ford Motor Credit Company (Ford Credit) offers a wide variety of automotive financing products to and through automotive dealers throughout the world. The predominant share of Ford Credit s business consists of financing our vehicles and supporting our dealers. Ford Credit s primary financial products fall into the following three categories:

Retail financing. Purchasing retail installment sales contracts and retail lease contracts 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 that it originates and purchases, makes loans to 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 payments made under retail installment sale contracts and retail leases (including interest supplements and other support payments it receives from us on special financing programs), and from payments made under wholesale and other dealer loan financing programs.

Ford Credit does business in all 50 states of the United States and in all provinces in Canada through automotive dealer financing branches and regional business centers. In 2007, Ford Credit will begin consolidating its branches in the United States and Canada into its regional business centers. Outside of 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 in 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, FCE, through its Worldwide Trade Financing division, provides financing to dealers in countries where typically we have no established local presence.

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, as well as 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,		
	2006	**2005**	**2004**
United States			
Financing share Ford, Lincoln and Mercury			
Retail installment and lease	44%	37%	45%
Wholesale	80	81	84
Europe			
Financing share Ford			
Retail installment and lease	27%	28%	29%
Wholesale	95	96	97

The increase in Ford Credit s retail financing share in the United States in 2006 compared with 2005 primarily reflected the impact of our marketing programs that emphasized the use of Ford Credit financing and the non-recurrence in 2006 of our marketing program that offered employee pricing to all customers in 2005. 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 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 Disclosures about Market Risk.

We sponsor special financing programs available only through Ford Credit. Under these programs, we make interest supplement or other support payments to Ford Credit. These programs 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.

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ITEM 1. Business (continued)

We have a profit maintenance agreement with Ford Credit that requires us to maintain consolidated income before income taxes and net income at specified minimum levels. In addition, Ford Credit has an agreement to maintain a minimum control interest in FCE and to maintain FCE s net worth above a minimum level. No payments were made under either of these agreements during the 2004 through 2006 periods.

In addition, we entered into an Amended and Restated Agreement with Ford Credit dated December 12, 2006 relating to our set-off arrangements and long-standing intercompany business practices, a copy of which is filed as an exhibit hereto.

GOVERNMENTAL STANDARDS

Many governmental standards and regulations relating to safety, fuel economy, emissions control, noise control, vehicle recycling, substances of concern, 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 Federal Emissions Standards. 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. The current (Tier 2) emissions standards promulgated by the U.S. Environmental Protection Agency (EPA) 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. The Tier 2 emissions standards also extend emissions durability requirements to 120,000 or 150,000 miles (depending on the specific standards to which the vehicle is certified). These standards present compliance challenges and make it more costly and difficult to utilize light-duty diesel technology, which in turn restricts our ability to improve fuel economy for purposes of satisfying Corporate Average Fuel Economy (CAFE) standards.

The EPA also has promulgated new standards and requirements for EPA-defined heavy-duty vehicles and engines (those vehicles with 8,500-14,000 pounds gross vehicle weight) to apply beginning with the 2007 model year for diesel engines and with the 2008 model year for gasoline engines. These standards and requirements include more stringent evaporative hydrocarbon standards for gasoline vehicles, and more stringent exhaust emission standards for all vehicles. In order to meet the new diesel standards, manufacturers must employ new aftertreatment technologies, such as diesel particulate filters, which require periodic customer maintenance. These technologies add significant cost to the emissions control system, and there are potential issues associated with consumer acceptance. The EPA and manufacturers are engaged in discussions over the warning systems that will be used to alert motorists of the need for maintenance of these systems.

As discussed in Stationary Source Emissions Control below, the EPA continues to revise the National Ambient Air Quality Standards for particulate matter and ozone, and to redesignate areas of the country from attainment to non-attainment status. These periodic changes further increase pressure to reduce vehicle emissions of particulate matter, volatile organic compounds, and nitrogen oxide.

U.S. Requirements California and Other State Emissions Standards. 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 s current LEV II emissions standards treat most light-duty trucks the same as passenger cars, and require both types of vehicles to meet new stringent emissions requirements. Like the EPA s Tier 2 emissions standards, CARB s LEV II vehicle emissions standards also present a difficult engineering challenge, and impose even greater barriers to the use of light-duty diesel technology. In 2004, CARB enacted standards limiting emissions of greenhouse gases (e.g., carbon dioxide) from new motor vehicles. CARB asserts that its vehicle emissions regulations provide authority for it to adopt such standards. Vehicle manufacturers are seeking through federal litigation to invalidate these regulations on the grounds that greenhouse gas standards are functionally equivalent to fuel economy standards and thus preempted by the federal fuel economy law and/or the federal Clean Air Act. Issues associated with greenhouse gas regulation are discussed more

fully in the Motor Vehicle Fuel Economy section below.

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ITEM 1. Business (continued)

Since 1990, the California program has included requirements for manufacturers to produce and deliver for sale zero-emission vehicles (ZEVs), which produce no emission of regulated pollutants. Typically, the only vehicles capable of meeting these requirements are 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.

In 2003, CARB adopted 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 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 provide a compliance path pursuant to which the auto industry would need to produce specified numbers of zero-emission fuel cell vehicles. In the aggregate, the rules call for production by the industry of 250 zero-emission fuel cell vehicles by the 2008 model year, 2,500 more in the 2009-2011 model-year period, and 25,000 more in the 2012-2014 model-year period.

While the 2003 amendments appear to reflect a recognition by CARB that battery-electric vehicles do not have the potential to achieve widespread consumer acceptance, the rules still require manufacturers to produce a substantial number of either battery-electric or fuel cell vehicles in the 2012 model year and beyond. There are substantial questions about the feasibility of producing the required number of zero-emission fuel cell vehicles, due to the substantial engineering challenges and high costs associated with this technology. It is also doubtful whether the market will support the number of required ZEVs. 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, if at all. In accordance with CARB s ZEV regulations, a panel of independent experts is currently reviewing the feasibility of the ZEV requirements, and is expected to issue its findings in 2007. It is anticipated that the panel s findings will likely lead to further amendment of the ZEV regulations, but we do not know how extensive the changes may be. Compliance with the ZEV mandate may eventually require costly actions that would have a substantial adverse effect on our sales volume and profits. For example, we could be required to curtail the sale of non-ZEVs and/or offer to sell ZEVs, advanced-technology vehicles, and PZEVs well below cost.

The Clean Air Act permits other states that do not meet national ambient air quality standards to adopt California s motor vehicle emissions standards no later than two years before the affected model year. In addition to California, ten states, primarily located in the Northeast and Northwest, have adopted the California standards (including California s greenhouse gas provisions). Eight of these states also adopted the ZEV requirements. These ten states, together with California, account for nearly 30% of Ford s current light-duty vehicle sales volume in the United States. More states are considering adopting the California standards. Unfortunately, there are problems inherent in transferring California standards to other states, including the following: 1) managing fleet average emissions standards and ZEV mandate requirements on a state-by-state basis presents a major challenge to automobile company distribution systems; 2) market acceptance of some ZEVs varies from state to state, depending on weather and other factors; and 3) the states adopting the California program have not adopted California s clean fuel regulations, which may impair the ability of vehicles to meet California s in-use standards.

U.S. Requirements Warranty, Recall, and On-Board Diagnostics. 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, the 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. CARB is in the process of revising its program for emissions defect and warranty reporting and associated field actions (which includes recall actions). When complete, the new rules are likely to impose additional testing requirements and require manufacturers to conduct more frequent emissions-related field actions, resulting in added costs.

Both CARB and the EPA also have adopted on-board diagnostic (OBD) regulations, which require a vehicle to monitor its emissions control system and notify the vehicle operator (via the check engine light) of any malfunction. These regulations have become extremely complicated, and creation of a compliant system requires substantial

engineering resources. CARB s OBD rules for vehicles under 14,000 pounds gross vehicle weight include a variety of requirements that phase in between the 2006 and 2010 model years. CARB also has adopted engine manufacturer diagnostic requirements for heavy-duty gasoline and diesel engines that apply to the 2007 to 2009 model years, and additional OBD requirements for vehicles over 14,000 pounds gross vehicle weight in model years 2010 and beyond.

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ITEM 1. Business (continued)

The EPA s OBD rules are generally less stringent than CARB s, so manufacturers typically design for compliance with CARB s requirements in order to avoid designing two systems. The complexity of the OBD requirements and the difficulties of meeting all of the monitoring conditions and thresholds make OBD approval one of the most challenging aspects of certifying vehicles for emissions compliance. CARB regulations provide for automatic recalls of vehicles that fail to comply with specified OBD requirements. In addition, many other states have implemented OBD tests as part of their inspection and maintenance programs. Failure of in-service compliance tests could lead to vehicle recalls with substantial costs for related inspections or repairs.

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 were applied 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. This directive on emissions also introduced OBD 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 80,000 kilometers of vehicle life (extended to 100,000 kilometers in 2005). Failure 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 precluded manufacturers from offering some products in time to be eligible for government incentive programs. The EU commenced a program in 2004 to determine the specifics for further changes to vehicle emissions standards, and in 2005 the European Commission published a proposed law for Stage V emissions. Specific mandated targets or limits are yet to be determined. To date, the law has not yet been finalized.

Other National Requirements. Many countries, in an effort to address air quality concerns, 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 for gasoline vehicles, and European-based standards for diesel vehicles. Because fleet average requirements do not apply, some vehicle emissions control systems may have to be redesigned to meet the requirements in these markets. Furthermore, not all of these countries have adopted appropriate fuel quality standards to accompany the stringent emissions standards adopted. This could lead to compliance problems, particularly if OBD or in-use surveillance requirements are implemented. Japan has unique standards and test procedures, and is considering more stringent standards for implementation in 2009. This may require unique emissions control systems be designed for the Japanese market.

Stationary Source Emissions Control

U.S. Requirements. 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 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 require certain of our facilities to reduce their air emissions significantly. 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.

The Clean Air Act also requires the EPA to periodically review and update its National Ambient Air Quality Standards (NAAQS), and to designate whether counties or other local areas are in compliance with the new standards. If an area or county does not meet the new standards (non-attainment areas), the state must revise its implementation plans to achieve attainment. In 2006, the EPA issued a final rule revising the NAAQS for particulate matter. For fine particulate matter (i.e., particles 2.5 micrometers in diameter or less), the EPA has issued a new standard that is considerably more stringent than its predecessor. The EPA estimates that the new standard will put approximately 124

counties into non-attainment status for fine particulate matter. With respect to coarse particulate matter (i.e., particles between 2.5 and 10 micrometers in diameter), the EPA has retained the existing standard after considering an alternative program that would have focused on urban and industrial sources. Various parties have filed petitions for review of the final particulate-matter rules in the United States Court of Appeals for the District of Columbia Circuit, in most cases seeking more stringent standards that would create even more new non-attainment areas.

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ITEM 1. Business (continued)

The Alliance of Automobile Manufacturers (an industry trade group made up of nine leading automotive manufacturers including BMW Group, DaimlerChrysler, Ford, General Motors, Mazda, Mitshubishi Motors, Porsche, Toyota and Volkswagen (the Alliance)) is planning to intervene to oppose further changes to the EPA s final rule. Even under the final rule as issued, the new non-attainment areas will need to revise their implementation plans to require additional emissions control equipment and impose more stringent permit requirements on facilities in those areas. The cost to us, in aggregate, to comply with these requirements could be substantial. The EPA is currently in the process of considering revisions to the ozone NAAQS that could have significant implications for both stationary and mobile emissions sources.

European Requirements. In Europe, environmental legislation is driven by EU law, in most cases in the form of directives that must be transposed into national legislation. All of our European plants are located in the EU region, with the exception of St. Petersburg in Russia. One of the core EU directives is the Directive on Integrated Pollution Prevention Control (IPPC). The IPPC regulates the permit process for facilities, and thus the allowed emissions from these facilities. As in the United States, engine testing, surface coating, casting operations, and boiler houses all fall under this regime. The Solvent Emission Directive coming into effect in October 2007 primarily affects vehicle manufacturing plants, which must upgrade their paint shops to meet the new requirements. The cost to us, in the aggregate, to comply with these requirements could be substantial.

Periodic emission reporting also is required of EU Member States, in most cases defined in the permits of the facility. The recently-approved Pollution Release and Transfer Register requires more reporting regarding emissions into air, water and soil than its precursor. The information required by these reporting systems is publicly available on the Internet.

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 is obligated to recall vehicles if it determines that the vehicles do not comply with a safety standard. Should we or NHTSA determine that either a safety defect or a noncompliance exists with respect to certain of our vehicles, the cost of such recall campaigns could be substantial. There were pending before NHTSA five investigations relating to alleged safety defects or potential compliance issues in our vehicles as of January 22, 2007.

The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was signed into law in 2005. SAFETEA-LU establishes a number of substantive, safety-related rulemaking mandates for NHTSA that can be expected to result in new regulations and product content requirements.

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. Various groups have challenged the categorical determination by NHTSA that certain areas of data, including warranty claim information, field reports, and consumer complaint information, were granted a presumption of confidentiality under the TREAD Act early warning reporting requirements. Since that time, the United States District Court for the District of Columbia has ruled that, while NHTSA had the authority to make these categorical determinations, it did not provide adequate public notice and opportunity to comment in so doing. NHTSA has decided to address this issue in further rulemaking. Resolution of this litigation may result in the publication of information (such as injury accident information) that manufacturers have been submitting to NHTSA under the TREAD Act s early warning reporting rules.

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ITEM 1. Business (continued)

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 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, more than 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 set forth 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 Federal Standards. Federal law requires that vehicles meet minimum corporate average fuel economy 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.

Federal 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. By rule, NHTSA has set light-truck CAFE standards of 21.6 miles per gallon for model year 2006, and 22.2 miles per gallon for model year 2007. In August 2005, NHTSA issued a Notice of Proposed Rulemaking seeking to change the structure of the light-truck fuel economy standards for the model year 2008 and beyond. After taking public comment, NHTSA released the final rule in 2006. The final rule relies on a continuous mathematical function relating fuel economy targets to vehicle size. In model year 2011 and beyond, the truck CAFE standards will apply for the first time to certain classes of heavier passenger vehicles (SUVs and passenger vans with a gross vehicle weight between 8,500 and 10,000 pounds, or with a gross vehicle weight below 8,500 pounds and a curb weight above 6,000 pounds).

A number of groups have filed petitions seeking judicial review of the light truck rule. These petitions for review have been consolidated into one case in the United States Court of Appeals for the Ninth Circuit. Among other things, the petitioners allege that the new light truck standards have been set below what is technologically possible and required by law; that NHTSA has failed to adequately address global climate change, air quality and other environmental impacts in making its decision; and that NHTSA s new methodology for determining truck CAFE standards is not authorized by the underlying federal statute. Petitioners also challenge NHTSA s position that state greenhouse gas rules are preempted by federal law. Briefing in this litigation is underway, and the Alliance plans to file an amicus brief seeking to prevent changes to NHTSA s final rule.

Congress is considering a host of energy-related bills, some of which would impose specific new CAFE standards, including new standards for passenger cars, that would be much more onerous than the percentage increases typically required by NHTSA in setting maximum feasible standards under current law. If such a bill were enacted, it could threaten our ability to comply with passenger car fuel economy standards in the future. At the same time, the Bush administration has requested authority from Congress for NHTSA to reform passenger car CAFE standards using a similar structure to the new fuel economy program for light trucks. New authority from Congress is believed to be required because the federal law governing the fuel economy program imposes greater limitations on NHTSA s ability to regulate cars than light trucks. Various bills have been introduced in response to the administration s request.

Pressure to increase CAFE standards stems in part from concerns about the impact of carbon dioxide and other greenhouse gas emissions on the global climate. In 1999, a petition was filed with the EPA requesting that it regulate carbon dioxide emissions from motor vehicles under the Clean Air Act. This would be the equivalent to imposing fuel economy standards, since the amount of carbon dioxide emitted by a vehicle is directly proportional to the amount of fuel consumed. The petitioners later 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 the Clean Air Act does not authorize the EPA to regulate greenhouse gas emissions, and 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, intervened in support of the EPA s

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ITEM 1. Business (continued)

decision. In July 2005, the Court held that the EPA had exercised reasonable discretion in determining not to regulate carbon dioxide as a pollutant. This ruling is now being reviewed by the United States Supreme Court, and a decision is expected by the summer of 2007. The Alliance is an intervenor in the case, and has filed a brief in support of the EPA s decision.

U.S. Requirements California and Other State Standards. In July 2002, California enacted Assembly Bill 1493 (AB 1493), a law mandating that CARB promulgate greenhouse gas standards for light-duty vehicles beginning with model year 2009. In September 2004, CARB adopted California greenhouse gas emissions regulations applicable to 2009-2016 model-year 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 large light trucks and medium-duty passenger vehicles 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 in federal district court in Fresno, California. In addition to the Alliance, plaintiffs in the case include several automobile dealers, two other individual automobile manufacturers, and another automotive trade association. The suit challenges the regulation on several bases, including that it is preempted by the federal CAFE law. The discovery phase for this litigation is largely completed, and trial is currently expected toward the end of 2007.

A host of other states have adopted, or are in the process of adopting, CARB s greenhouse gas standards. These states include New York, Massachusetts, Maine, Vermont, Rhode Island, Connecticut, New Jersey, Pennsylvania, Oregon, and Washington. Several other states are known to be considering the adoption of such rules. The Alliance, along with other plaintiffs, has filed suit in federal court in Vermont and Rhode Island challenging those states adoption of the California AB 1493 rules. It appears likely that trial in the Vermont case may begin in March 2007; the Rhode Island case is not as far along.

In September 2006, California also enacted the Global Warming Solutions Act of 2006 (better known as Assembly Bill 32 (AB 32)). This law mandates that statewide greenhouse gas emissions be capped at 1990 levels by the year 2020, which would represent a significant reduction from current greenhouse gas levels. It also requires the monitoring and annual reporting of greenhouse gas emissions by all significant sources**,** and delegates authority to CARB to develop and implement greenhouse gas emissions reduction measures. AB 32 also provides that, if the AB 1493 standards do not take effect, CARB must implement alternative regulations to control mobile sources of greenhouse gas emissions to achieve equivalent or greater reductions than mandated by AB 1493. It is not clear at this time how this bill would be implemented.

Ford s ability to comply with CAFE or greenhouse gas emissions standards depends heavily on the alignment of these standards with actual consumer demand, as well as adequate lead time to make the necessary product changes (assuming that the technology can be developed). If consumers demand vehicles that are relatively large, have high performance, and/or are feature-laden, while regulatory standards are skewed toward vehicles that are smaller and more economical, compliance becomes problematic. Moreover, if regulatory requirements call for rapid, substantial increases in fleet average fuel economy (or decreases in fleet average greenhouse gas emissions), we may not have adequate resources and time to make major product changes across most or all of our vehicle fleet (assuming the technology can be developed). The recent changes to the light truck CAFE standards pose very significant challenges for us. The standards set forth in AB 1493 pose even greater challenges, because their rapid rate of increase and extreme stringency are unprecedented in the history of fuel economy regulation. If significant increases in CAFE standards are imposed beyond those presently in effect or greenhouse gas regulations (such as AB 1493) are imposed, we likely would be forced to take various costly actions that could have substantial adverse effects on our sales volume and profits. Such actions may include, but are not limited to, curtailing production and sale of certain vehicles such as family-size, luxury, and high-performance cars and full-size light trucks; restricting offerings of selected engines and popular options; and/or increasing market support programs for our most fuel-efficient cars and light trucks in order to maintain compliance.

See Item 3. Legal Proceedings for a discussion of the public nuisance litigation filed by the state of California against automobile manufacturers for alleged global warming damages. If that suit should result in a judgment against manufacturers, it could encourage similar litigation in other states and municipalities. It could also have the effect of imposing judicially-mandated standards for greenhouse gas emissions that would arguably supersede or augment existing fuel economy requirements. Such a result could compel us to implement product restrictions and/or other costly actions as outlined above.

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ITEM 1. Business (continued)

European Requirements. The EU is a party to the Kyoto Protocol and has agreed to reduce greenhouse gas emissions by eight percent below 1990 levels during the 2008-2012 period. In 1998, the EU agreed to support an environmental agreement with ACEA (of which Ford is a member) on carbon dioxide emission reductions from new passenger cars (the ACEA Agreement). The ACEA Agreement established an emissions target of 140 grams of carbon dioxide per kilometer for the average of new cars sold in the EU by the ACEA s members in 2008. This corresponds to a 25% reduction in average carbon dioxide emissions compared to 1995. To date, the industry has made good progress, meeting an interim target for 2003 (165 170 grams of carbon dioxide per kilometer); however, achieving the 140 grams per kilometer target by 2008 remains ambitious both technologically and economically.

In 2005, ACEA and the European Commission reviewed the potential for additional carbon dioxide reductions, with the goal of achieving the EU s objective of 120 grams of carbon dioxide per kilometer (g/km) by 2012. The discussions have advanced using the concept of an integrated approach to further reductions, involving the oil industry and other sectors. In 2007, it has been proposed to set a 120 g/km overall target, with a vehicle target of 130 g/km and complementary measures making up the other 10 g/km in emissions reductions. The complementary measures could include, for example, regulation of tires or mobile air conditioning systems, or mandatory introduction of biofuels. The proposal also included a non-binding target for commercial vehicles under 3.5 tons of 175 g/km by 2012. Many details remain subject to negotiation or revision in the legislative process. The resulting legislation likely will be adopted into law by 2009.

Some European countries are considering other initiatives for reducing carbon dioxide emissions from motor vehicles, including fiscal measures. For example, the U.K. introduced a vehicle excise duty and company car taxation based on carbon dioxide emissions in 2001, and other member states such as France and Portugal have announced their intention to adopt carbon dioxide-based taxes for passenger cars. The 2007 European Commission announcement is likely to trigger further fiscal measures.

Other National Requirements. Some Asian countries (such as China, Japan, South Korea, and Taiwan) 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.

Following considerable discussion, the Canadian automobile industry signed a Memorandum of Understanding (MOU) dated April 5, 2005 with the Canadian government in which the industry voluntarily committed to reduce greenhouse gas emissions from the Canadian vehicle fleet by 5.3 megatons (Mt) by 2010 (which slightly exceeds the government s 5.2 Mt target under its Kyoto Protocol Climate Change Action Plan). The MOU contains the following interim targets for the entire Canadian automobile industry: 2.4 Mt reduction by 2007, total reduction of 3.0 Mt in 2008, total reduction of 3.9 Mt in 2009 and the full 5.3 Mt reduction in 2010. Pursuant to the MOU, a committee of industry and government representatives has been established to monitor the industry s overall compliance with the annual MOU targets.

European Chemicals Policy

The European Commission finalized its regulatory framework in December 2006 for a single system to register, evaluate, and authorize the use of certain chemicals (REACH). The rules will take effect on June 1, 2007, followed by a pre-registration phase of eighteen months. Compliance with the legislation is likely to be administratively burdensome for all entities in the supply chain, and research and development resources may be redirected from market-drive to REACH-driven activities. The regulation also may accelerate restriction or banning of certain chemicals and materials, which could increase the costs of certain products and processes used to manufacture vehicles and parts.

Pollution Control Costs

During the period 2007 through 2011, we expect to spend approximately $325 million on our North American and European facilities to comply with stationary source air and water pollution and hazardous waste control standards which are now in effect or are scheduled to come into effect during this period. Of this total, we currently estimate spending approximately $75 million in 2007 and $65 million in 2008. Specific environmental expenses are difficult to isolate because expenditures may be made for more than one purpose, making precise classification difficult.

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ITEM 1. Business (continued)

EMPLOYMENT DATA

The approximate number of individuals employed by us and our consolidated entities (including entities we do not control) at December 31, 2006 and 2005 was as follows (in thousands):

	2006	2005
Business Unit		
Automotive		
The Americas		
Ford North America	128	140
Ford South America	13	13
Ford Europe and PAG		
Ford Europe	66	66
PAG	45	49
Ford Asia Pacific and Africa	18	18
Financial Services		
Ford Motor Credit Company	13	14
Total	283	300

The decrease in employment levels primarily reflects implementation of our personnel-reduction programs in North America.

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 sector are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW or United Automobile Workers). Approximately two percent of our U.S. salaried employees are represented by unions. Most hourly employees and many non-management salaried employees of our subsidiaries outside of the United States also are represented by unions.

Our average labor cost per-hour-worked for hourly employees of Ford in the United States, excluding subsidiaries, was as follows for the listed years:

	2006	2005
Earnings	$ 32.38	$ 31.64
Benefits	38.13	33.26
Total	$ 70.51	$ 64.90

We have entered into collective bargaining agreements with the UAW, and the National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW or Canadian Automobile Workers). Among other things, our agreements with the UAW and CAW provide for guaranteed wage and benefit levels throughout the term of the respective agreements, 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 during the terms of the agreements. Our agreement with the UAW expires on September 14, 2007, and our agreement with the CAW expires on September 16, 2008. Historically, negotiation of new collective bargaining agreements with the UAW and CAW have typically resulted in increases in wages and benefits, including retirement benefits; some of these increases typically have been provided to salaried employees as well.

In 2006, we negotiated new Ford collective bargaining agreements with labor unions in Argentina, Australia, Brazil, Britain, France, Germany, Mexico, Russia, and Vietnam. We also negotiated new collective bargaining agreements to cover employees at our Jaguar (Britain) and Volvo (Sweden) affiliates.

In 2007, we are or will be negotiating new collective bargaining agreements with labor unions in Argentina, Belgium, Brazil, France, India, Mexico, New Zealand, Philippines, Russia, Southern Africa, Spain, Taiwan, Thailand, United States (hourly and salaried), Venezuela and Vietnam. We will also negotiate new collective bargaining agreements at our Aston Martin (Britain), Land Rover (Britain), and Volvo (Sweden) affiliates.

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ITEM 1. Business (continued)

ENGINEERING, RESEARCH AND DEVELOPMENT

We engage in 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 engineering, are excluded from our engineering, research and development charges discussed below.

During the last three years, we recorded charges to our consolidated income for engineering, research and development we sponsored in the following amounts: $7.2 billion (2006), $8 billion (2005), and $7.4 billion (2004). Any customer-sponsored research and development activities that we conduct are not material.

ITEM 1A. ***Risk Factors***

We have listed below (not necessarily in order of importance or probability of occurrence) the most significant risk factors applicable to us:

Continued decline in market share. Our overall market share in the United States has declined in each of the past five years, from 21.1% in 2002 to 17.1% in 2006. The decline in overall market share primarily reflects a decline in our retail market share, which excludes fleet sales, during the past five years from 16.3% in 2002 to 11.8% in 2006. Because a high proportion of our costs are fixed, these volume reductions have had an adverse impact on our results of operations. While we are attempting to stabilize our market share and reduce our capacity over time through the restructuring actions described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview, we cannot be certain that we will be successful. Continued declines in our market share could have a substantial adverse effect on our results of operations and financial condition.

Continued or increased price competition resulting from industry overcapacity, currency fluctuations or other factors. The global automotive industry is intensely competitive, with overall manufacturing capacity far exceeding current demand. For example, the global automotive industry is estimated to have had excess capacity of 14.8 million units in 2006. Industry overcapacity has resulted in many of our principal competitors offering marketing incentives on vehicles in an attempt to maintain market share. These marketing incentives have included a combination of subsidized financing or leasing programs, price rebates and other incentives. As a result, we have not necessarily been able to increase prices sufficiently to offset higher costs of marketing incentives or other cost increases (e.g., for commodities or health care) or the impact of adverse currency fluctuations in either the U.S. or European markets. While we, General Motors and DaimlerChrysler have each announced plans to reduce capacity significantly, these reductions will take several years to complete and will only partially address the industry s overcapacity problems. A continuation or increase in these trends could have a substantial adverse effect on our results of operations and financial condition.

A market shift (or an increase in or acceleration of market shift) away from sales of trucks or sport utility vehicles, or from sales of other more profitable vehicles in the United States. Trucks and sport utility vehicles historically have represented some of our most profitable vehicle segments and the segment in which we have our highest market share. During the past few years, there has been a general shift in consumer preferences away from medium- and large-sized sport utility vehicles, which has adversely affected our overall market share and our profitability. A continuation or acceleration of this general shift in consumer preferences away from sport utility vehicles, or a similar shift in consumer preferences away from truck sales or other more profitable vehicle sales, whether because of higher fuel prices, declines in the construction industry or otherwise, could have an increasingly adverse effect on our results of operations and financial condition.

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ITEM 1A. Risk Factors (continued)

A significant decline in industry sales, particularly in the United States or Europe, resulting from slowing economic growth, geo-political events or other factors. The worldwide automotive industry is affected significantly by general economic conditions (among other factors) over which automobile manufacturers have little control. This is especially so because vehicles are durable goods, which provide consumers latitude in determining whether and when to replace an existing vehicle. The decision whether and when to make a vehicle purchase may be affected significantly by slowing economic growth, geo-political events, and other factors. Consumer demand may vary substantially from year to year, and, in any given year, consumer demand may be affected significantly by general economic conditions, including the cost of purchasing and operating a vehicle and the availability and cost of credit and fuel.

Moreover, like other manufacturers, we have a high proportion of costs that are fixed, so that relatively small changes in wholesale unit volumes may dramatically affect overall profitability. In recent years, industry demand has remained at high levels. Should industry demand soften because of slowing or negative economic growth in key markets or other factors, our results of operations and financial condition could be substantially adversely affected. For additional discussion of economic trends, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview.

Lower-than-anticipated market acceptance of new or existing products. Offering highly desirable vehicles can mitigate the risks of increasing price competition and declining demand. Conversely, offering vehicles that are perceived to be less desirable (whether in terms of price, quality, styling, safety, overall value or otherwise) can exacerbate these risks. For example, if a new model were to experience quality issues at the time of launch, the vehicle s perceived quality could be affected even after the issues had been corrected, resulting in lower sales volumes, market share and profitability.

Continued or increased high prices for or reduced availability of fuel. A continuation of or further increase in high prices for fuel or reduced availability of fuel, particularly in the United States, could result in weaker demand for relatively more profitable large and luxury car and truck models and increased demand for relatively less profitable small cars and trucks. An acceleration of such a trend, as demonstrated in the short-term with the spike in fuel prices following Hurricanes Katrina and Rita in the U.S. Gulf Coast region in 2005, could have a substantial adverse effect on our financial condition and results of operations.

Currency or commodity price fluctuations. As a resource-intensive manufacturing operation, we are exposed to a variety of market and asset risks, including the effects of changes in foreign currency exchange rates, commodity prices and interest rates. These risks affect our Automotive and Financial Services sectors. We monitor and manage these exposures as an integral part of our overall risk management program, which recognizes the unpredictability of markets and seeks to reduce the potentially adverse effects on our business. Nevertheless, changes in currency exchange rates, commodity prices and interest rates cannot always be predicted or hedged. In addition, because of intense price competition and our high level of fixed costs, we may not be able to address such changes even if they are foreseeable. Substantial changes in these rates and prices could have a substantial adverse effect on our financial condition and results of operations. For additional discussion of currency or commodity price risk, see Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Adverse effects from the bankruptcy or insolvency of a major competitor. We and certain of our major competitors have substantial legacy costs (principally related to employee benefits) that put each of us at a competitive disadvantage to other competitors. The bankruptcy or insolvency of a major competitor with substantial legacy costs could result in that competitor gaining a significant cost advantage (by eliminating or reducing contractual obligations to unions and other parties through bankruptcy proceedings). In addition, the bankruptcy or insolvency of a major auto manufacturer likely could lead to substantial disruptions in the automotive supply base, which could have a substantial adverse impact on our financial condition and results of operations.

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ITEM 1A. Risk Factors (continued)

Economic distress of suppliers that has in the past and may in the future require us to provide financial support or take other measures to ensure supplies of components or materials. Automobile manufacturers continue to experience commodity cost pressures and the effects of industry overcapacity. These factors have also increased pressure on the industry s supply base, as suppliers cope with higher commodity costs, lower production volumes and other challenges. As a result, suppliers have been less able to absorb commodity cost increases or to achieve productivity improvements, and, therefore, less willing to reduce prices to us. We have taken and may continue to take actions to provide financial assistance to certain suppliers to ensure an uninterrupted supply of materials and components. For example, in 2005 we reacquired from Visteon twenty-three North American facilities in order to protect our supply of components. In connection with this transaction, we forgave $1.1 billion of Visteon s liability to us for employee-related costs, and incurred a pre-tax loss of $468 million.

Labor or other constraints on our ability to restructure our business. Substantially all of the hourly employees in our Automotive operations in the United States and Canada are represented by unions and covered by collective bargaining agreements. Our agreement with the United Automobile Workers union expires in September 2007 and will be renegotiated this year. Our agreement with the Canadian Automobile Workers union expires in September 2008 and will be renegotiated next year. These agreements provide for guaranteed wage and benefit levels throughout their terms and provide for significant employment security. As a practical matter, these agreements restrict our ability to eliminate product lines, close plants, and divest businesses during the terms of the agreements. These agreements may also limit our ability to change local work rules and practices to encourage flexible manufacturing and other efficiency-related improvements. Accordingly, unless we are able to negotiate significant changes to these agreements, they may impede our ability to restructure our business successfully to compete more effectively in today s global marketplace. For discussion of our restructuring plans, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview.

Work stoppages at Ford or supplier facilities or other interruptions of supplies. A work stoppage could occur at Ford or supplier facilities, most likely as a result of disputes under existing collective bargaining agreements with labor unions, or in connection with negotiations of new collective bargaining agreements, such as the renegotiation in 2007 of our agreement with the United Automobile Workers union. A dispute under an existing collective bargaining agreement could arise, for example, as a result of efforts to implement restructuring actions, such as those discussed under Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview. A work stoppage for this or other reasons at Ford or its suppliers, or an interruption or shortage of supplies for any reason (e.g., financial distress, natural disaster or production difficulties affecting a supplier), if protracted, could substantially adversely affect our financial condition and results of operations.

Single-source supply of components or materials. Some components used in our vehicles (e.g., certain diesel engines) are available from a single supplier and cannot be quickly or inexpensively re-sourced to another supplier due to long lead times and contractual commitments that might be required by another supplier in order to provide the component or materials. In addition to the risks described above regarding interruption of supplies, which are exacerbated in the case of single-source suppliers, the exclusive supplier of a key component potentially could exert significant bargaining power over price, quality, warranty claims or other terms relating to a component.

Substantial pension and postretirement healthcare and life insurance liabilities impairing our liquidity or financial condition. We have two principal qualified defined benefit retirement plans in the United States that provide noncontributory benefits to employees. Certain of our U.S. and non-U.S. subsidiaries have separate similar noncontributory plans that generally provide similar types of benefits for their employees. In addition, we, and certain of our subsidiaries, sponsor plans to provide selected health care and life insurance benefits for retired employees. See Note 23 of the Notes to the Financial Statements for more information about these plans, including funded status.

Our U.S. defined benefit pension plans are subject to Title IV of the Employee Retirement Income Security Act of 1974 (ERISA). Under Title IV of ERISA, the Pension Benefit Guaranty Corporation (PBGC) has the authority under certain circumstances or upon the occurrence of certain events to terminate an underfunded pension plan. One of those circumstances is the occurrence of an event that unreasonably increases the risk of unreasonably large losses to the PBGC. Although we believe that it is not likely that the PBGC will terminate any of our plans, in the event that our

U.S. pension plans were to be terminated at a time when the liabilities of the plans exceeded the assets of the plans, we would incur a liability to the PBGC that could be equal to the entire amount of the underfunding.

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ITEM 1A. Risk Factors (continued)

If our cash flows and capital resources were to be insufficient to fund our pension or postretirement healthcare and life insurance obligations, we could be forced to reduce or delay investments and capital expenditures, seek additional capital, or restructure or refinance our indebtedness. In addition, if our operating results and available cash were to be insufficient to meet our pension or postretirement healthcare and life insurance obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our pension or postretirement healthcare and life insurance obligations. We might not be able to consummate those dispositions or to obtain the proceeds that we could realize from them, and these proceeds might not be adequate to meet any pension or postretirement healthcare and life insurance obligations then due.

Worse-than-assumed economic and demographic experience for our postretirement benefit plans (e.g., discount rates, investment returns, health care cost trends). The measurement of our obligations, costs and liabilities associated with benefits pursuant to our postretirement benefit plans requires that we estimate the present values of projected future payments to all participants. We use many assumptions in calculating these estimates, including assumptions related to discount rates, investment returns on designated plan assets, health care cost trends, and demographic experience (e.g., mortality and retirement rates). To the extent that actual results are less favorable than our assumptions, there could be a substantial adverse impact on our financial condition and results of operations. For additional discussion of these assumptions, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates and Note 23 of the Notes to Financial Statements.

The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns and/or increased warranty costs. Meeting or exceeding many government-mandated safety standards is costly, especially where standards may conflict with the need to reduce vehicle weight in order to meet government-mandated emissions and fuel-economy standards. Government safety standards also require manufacturers to remedy defects related to motor vehicle safety through safety recall campaigns, and a manufacturer is obligated to recall vehicles if it determines that they do not comply with a safety standard. Should we or government safety regulators determine that a safety or other defect or a noncompliance exists with respect to certain of our vehicles prior to the start of production, the launch of such vehicle could be delayed until such defect is remedied. The costs associated with any protracted delay in new model launches necessary to remedy such defect, or the cost of recall campaigns to remedy such defects in vehicles that have been sold, could be substantial.

Increased safety, emissions (e.g., CO_2), fuel economy or other (e.g., pension funding) regulation resulting in higher costs, cash expenditures, and/or sales restrictions. The worldwide automotive industry is governed by a substantial number of governmental regulations, which often differ by state, region and country. In the United States and Europe, for example, governmental regulation has arisen primarily out of concern for the environment, greater vehicle safety and a desire for improved fuel economy. Many governments regulate local product content and/or impose import requirements as a means of creating jobs, protecting domestic producers and influencing their balance of payments. The cost of complying with these requirements can be substantial.

Our ability to comply with CAFE or greenhouse gas emissions standards depends heavily on the alignment of these standards with actual consumer demand. If consumers demand vehicles that are relatively large, have high performance, and/or are feature-laden while regulatory standards are skewed toward vehicles that are smaller and more economical, compliance becomes problematic. Moreover, if legislative or regulatory requirements call for rapid, substantial increases in fleet average fuel economy (or decreases in fleet average greenhouse gas emissions), the Company may not have adequate resources and time to make major product changes across most or all of its vehicle fleet. If significant increases in CAFE standards are imposed beyond those presently in effect or proposed, or if state greenhouse gas regulations are not overturned, we may be forced to take various costly actions that could have substantial adverse effects on our sales volume and profits. For example, we may have to curtail production of certain vehicles such as family-size, luxury, and high-performance cars and full-size light-trucks; restrict offerings of selected engines and popular options; and/or increase market support programs for our most fuel-efficient cars and light-trucks in order to maintain compliance. See Item 1. Governmental Standards for additional discussion.

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ITEM 1A. Risk Factors (continued)

Unusual or significant litigation or governmental investigations arising out of alleged defects in our products or otherwise. We spend substantial resources ensuring compliance with governmental safety and other standards. However, compliance with governmental standards does not necessarily prevent individual or class action lawsuits, which can entail significant cost and risk. For example, the preemptive effect of the Federal Motor Vehicle Safety Standards is often a contested issue in litigation, and some courts have permitted liability findings even where our vehicles comply with federal law. Furthermore, simply responding to litigation or government investigations of our compliance with regulatory standards requires significant expenditures of time and other resources.

A change in our requirements for parts or materials where we have entered into long-term supply arrangements that commit us to purchase minimum or fixed quantities of certain parts or materials, or to pay a minimum amount to the seller (take-or-pay contracts). We have entered into a number of long-term supply contracts that require us to purchase a fixed quantity of parts to be used in the production of our vehicles. If our need for any of these parts were to lessen, we could still be required to purchase a specified quantity of the part or pay a minimum amount to the seller pursuant to the take-or-pay contract. We also have entered into a small number of long-term supply contracts for raw materials (for example, precious metals used in catalytic converters) that require us to purchase a fixed percentage of mine output. If our need for any of these raw materials were to lessen, or if a supplier s output of materials were to increase, we could be required to purchase more materials than we need.

Adverse effects on our operations resulting from certain geo-political or other events. We conduct a significant portion of our business in countries outside of the United States, and are pursuing growth opportunities in a number of emerging markets. These activities expose us to, among other things, risks associated with geo-political events, such as a governmental takeover (i.e., nationalization) of our manufacturing facilities; disruption of operations in a particular country as a result of political or economic instability, the outbreak of war or the expansion of hostilities; or acts of terrorism. Such events could have a substantial adverse effect on our financial condition and results of operations.

Substantial negative Automotive operating-related cash flows for the near- to medium-term affecting our ability to meet our obligations, invest in our business or refinance our debt. During the next few years, we expect substantial negative operating-related cash outflows. Future borrowings may not be available to us under our credit facilities or otherwise in amounts sufficient to enable us to pay our indebtedness and to fund our other liquidity needs. For example, if we are unable to meet certain covenants of our $11.5 billion secured credit facility established in December 2006 (e.g., if the value of assets pledged do not exceed outstanding borrowings), we will not be able to borrow under the facility. If our cash flow is worse than expected due to an economic recession, work stoppages, increased pension contributions or otherwise, or if we are unable to borrow under our credit facilities or otherwise for these purposes, we may need to refinance or restructure all or a portion of our indebtedness on or before maturity, reduce or delay capital investments, or seek to raise additional capital. We may not be able to implement one or more of these alternatives on terms acceptable to us, or at all. The terms of our existing or future debt agreements may restrict us from pursuing any of these alternatives. Should our cash flow be worse than anticipated or we fail to achieve any of these alternatives, this could materially adversely affect our ability to repay our indebtedness and otherwise have a substantial adverse effect on our financial condition and results of operations. For further information on our liquidity and capital resources, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Note 15 of the Notes to the Financial Statements.

Substantial levels of Automotive indebtedness adversely affecting our financial condition or preventing us from fulfilling our debt obligations (which may grow because we are able to incur substantially more debt, including additional secured debt). As a result of our recent financing actions and our other debt, we are a highly leveraged company. Our significant Automotive debt service obligations could have important consequences, including the following: our high level of indebtedness could make it difficult for us to satisfy our obligations with respect to our outstanding indebtedness; our ability to obtain additional financing for working capital, capital expenditures, acquisitions, if any, or general corporate purposes may be impaired; we must use a substantial portion of our cash flow from operations to pay interest on our indebtedness, which will reduce the funds available to us for operations and

other purposes; and our high level of indebtedness makes us more vulnerable to economic downturns and adverse developments in our business. The more leveraged we become, the more we become exposed to the risks described herein. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Note 15 of the Notes to the Financial Statements for additional information regarding our indebtedness.

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ITEM 1A. Risk Factors (continued)

Inability of Ford Credit to access debt or securitization markets around the world at competitive rates or in sufficient amounts due to additional credit rating downgrades or otherwise. The lowering of credit ratings for Ford and Ford Credit has increased borrowing costs and caused Ford Credit s access to the unsecured debt markets to become more restricted. In response, Ford Credit has increased its use of securitization and other sources of liquidity. Over time, and particularly in the event of any further credit rating downgrades or a significant decline in the demand for the types of securities it offers, Ford Credit may need to reduce the amount of receivables it purchases or originates. A significant reduction in the amount of receivables Ford Credit purchases or originates would significantly reduce ongoing profits and could adversely affect Ford Credit s ability to support the sale of Ford vehicles. For additional discussion, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

Higher-than-expected credit losses. Credit risk is the possibility of loss from a customer s or dealer s failure to make payments according to contract terms. Credit risk (which is heavily dependent upon economic factors including unemployment, consumer debt service burden, personal income growth, dealer profitability and used car prices) has a significant impact on Ford Credit s business. The level of credit losses Ford Credit may experience could exceed its expectations. For additional discussion regarding credit losses, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates.

Increased competition from banks or other financial institutions seeking to increase their share of financing Ford vehicles. No single company is a dominant force in the automotive finance industry. Most of Ford Credit s bank competitors in the United States use credit aggregation systems that permit dealers to send, through a single standard system, retail credit applications to multiple finance sources to evaluate financing options offered by these finance sources. This process has resulted in greater competition based on financing rates. In addition, Ford Credit is facing increased competition on wholesale financing for Ford dealers. Competition from such competitors with lower borrowing costs may increase, which could adversely affect Ford Credit s profitability and the volume of its business.

Changes in interest rates. Ford Credit is exposed to interest rate risk, and the particular market to which it is most exposed is U.S. dollar LIBOR. Ford Credit s interest rate risk exposure results principally from re-pricing risk, or differences in the re-pricing characteristics of assets and liabilities. Any inability to adequately control this exposure could adversely affect its business. For additional discussion of interest rate risk, see Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

To limit the impact of interest rate changes, Ford Credit has entered into long-term interest rate swaps with large notional balances, many of which are receive-fixed, pay-float interest rate swaps. Such swaps increase in value to Ford Credit when interest rates decline, and decline in value when interest rates rise. When interest rate swaps are not in designated hedging relationships, changes in the fair values of these derivatives due to interest rate movements can cause substantial earnings volatility.

Collection and servicing problems related to finance receivables and net investment in operating leases. After Ford Credit purchases retail installment sale contracts and leases from dealers and other customers, it manages or services the receivables. Any disruption of its servicing activity, due to inability to access or accurately maintain customer account records or otherwise, could have a significant negative impact on its ability to collect on those receivables and/or satisfy its customers.

Lower-than-anticipated residual values or higher-than-expected return volumes for leased vehicles. Ford Credit projects expected residual values (including residual value support payments from Ford) and return volumes of the vehicles it leases. Actual proceeds realized by Ford Credit upon the sale of returned leased vehicles at lease termination may be lower than the amount projected, which reduces the profitability of the lease transaction. Among the factors that can affect the value of returned lease vehicles are the volume of vehicles returned, economic conditions, and the quality or perceived quality, safety or reliability of the vehicles. All of these, alone or in combination, have the potential to adversely affect Ford Credit s profitability. For additional discussion regarding residual value, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates.

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ITEM 1A. Risk Factors (continued)

New or increased credit, consumer or data protection or other regulations resulting in higher costs and/or additional financing restrictions. As a finance company, Ford Credit is highly regulated by governmental authorities in the locations where it operates. In the United States, its operations are subject to regulation, supervision and licensing under various federal, state and local laws and regulations, including the federal Truth-in-Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act. In some countries outside the United States, Ford Credit s subsidiaries are regulated banking institutions and are required, among other things, to maintain minimum capital reserves. In many other locations, governmental authorities require companies to have licenses in order to conduct financing businesses. Efforts to comply with these laws and regulations impose significant costs on Ford Credit, and affect the conduct of its business. Additional regulation could add significant cost or operational constraints that might impair its profitability.

ITEM 1B. ***Unresolved Staff Comments***

None to report.

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, although many of these properties have been pledged to secure indebtedness. Our facilities are situated in various sections of the country and include assembly plants, engine plants, casting plants, metal stamping plants, transmission plants, and other component plants. Most of our distribution centers are leased (we own approximately 42% of the total square footage). 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 our use, 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 of the United States. We own substantially all of our non-U.S. 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 our use, 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 in the table below:

Segment	Plants	Distribution Centers/Warehouses	Engineering, Research/Development	Sales Offices
Ford North America	54*	31	39	38
Ford South America	7	1	0	0
Ford Europe	19	7	5	10
PAG	14	3	4	16
Ford Asia Pacific and Africa/Mazda	13	3	2	5
Total	107	45	50	69

* We have announced plans to cease

operations at a number of North American manufacturing facilities as part of our restructuring actions; the number above does not include plants that have been idled to date. For further discussion of our restructuring actions, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview. Included in the table above are 13 plants operated by ACH; of these, we have reached agreement in principle to sell three plants. We also have announced that we intend to sell or idle all plants currently operated by ACH by the end of 2008.

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ITEM 2. Properties (continued)

Included in the number of plants 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. Following are the most significant of these consolidated joint ventures and the number of plants they own:

AutoAlliance International (AAI) a 50/50 joint venture with Mazda (of which we own approximately 33.4%), which operates as its principal business an automobile vehicle assembly plant in Flat Rock, Michigan. AAI currently produces the Mazda6 and Ford Mustang models. 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.

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 series and the Cargo truck for the Turkish and export markets, and certain engines and transmissions, most of which are under license. This joint venture owns and operates two plants and a parts distribution depot in Turkey.

Getrag Ford Transmissions GmbH a 50/50 joint venture with Getrag Deutsche Venture GmbH and Co. KG, a German company, to which we transferred our European manual transmission operations in Halewood, England; Cologne, Germany; and Bordeaux, France. In 2004, Volvo Car Corporation (Volvo Cars) transferred its manual transmission operations from its Köping, 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 transferred at the time of 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 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 transferred to this joint venture its plant in Köping, Sweden. The joint venture produces all-wheel drive components. As noted above, the manual transmission operations at the Köping plant were transferred to Getrag Ford Transmissions GmbH. The hourly and salaried employees at the plant have become employees of the joint venture.

Tekfor Cologne GmbH (Tekfor) a 50/50 joint venture of Ford-Werke GmbH (Ford-Werke) and Neumayer Tekfor GmbH, a German company, to which joint venture Ford-Werke 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 for sale to third parties. Those Ford employees who worked at the Cologne Forge Plant at the time of the formation of the joint venture are assigned to Tekfor by Ford and remain Ford employees. In the event of surplus labor at the joint venture, Ford employees assigned to Tekfor may return to Ford. New workers at the joint venture will be hired as employees of the joint venture. Tekfor reimburses Ford for the full cost of 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. (Pininfarina) (60% partner). In September 2003, Volvo Cars and Pininfarina established this joint venture for the engineering and manufacture of niche vehicles, starting with a new, small convertible (Volvo C70), which is distributed by Volvo. The joint venture began production of the new car at the Uddevalla Plant in Sweden, which was transferred from Volvo Cars to the joint venture in December 2005, 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, Everest, Focus, Mondeo, Ranger and Transit models. 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 as Mazda and Suzuki. In addition to domestic assembly, FLH also has

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ITEM 2. Properties (continued)

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, unconsolidated 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 (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; Navistar medium-duty commercial trucks that are sold in Mexico; and a low-cab-forward, light-/medium-duty commercial truck for each of Ford and Navistar.

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 Mazda Automobile Corporation, Ltd. (CFMA) a joint venture between Ford (35% partner), Mazda (15% partner) and the Chongqing Changan Automobile Co., Ltd. (Changan) (50% partner). Through its facility in the Chinese city of Chongqing, CFMA produces and distributes in China the Ford Fiesta, Mondeo and Focus, the Mazda3 and the Volvo S40. In 2005, CFMA received approval from the Chinese government for the establishment of a new vehicle manufacturing plant in the Chinese city of Nanjing, which is now under construction.

Changan Ford Mazda Engine Company, Ltd. (CFME) a joint venture between Ford (25% partner), Mazda (25% partner) and the Chongqing Changan Automobile Co., Ltd (50% partner). CFME is located in the City of Nanjing, and will produce the Ford New I4 and Mazda BZ engines in support of the assembly of Ford- and Mazda-branded vehicles manufactured in China.

Jiangling Motors Corporation, Ltd. (JMC) a publicly-traded company in China with Ford (30% shareholder) and Jiangxi Jiangling Holdings, Ltd. (41% shareholder) as its controlling shareholders. Jiangxi Jiangling Holdings, Ltd. is a 50/50 joint venture between Chongqing Changan Automobile Co., Ltd. and Jiangling Motors Company Group. The public investors of JMC own 29% of its outstanding shares. JMC assembles the Ford Transit van and other non-Ford-technology-based 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 Ford vehicles assembled by its wholly-owned subsidiary Associated Motor Industries Malaysia, Sdn. Bhd., an assembly company, including Econovan, Escape, Everest, Laser and Ranger models.

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 more than adequate for the manufacture and assembly of our products.

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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; shareholder and investor matters; and financial reporting 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. We have also accrued expenses 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:

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 component parts found in older vehicles, insulation or other asbestos products in our facilities, or asbestos aboard our former maritime fleet. The majority of these cases have been filed in 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. In most of the 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 cases also 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, and began to decline in 2004 and 2005. In 2006, these costs again decreased; however, they may become substantial in the future.

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

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ITEM 3. Legal Proceedings (continued)

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.

Woodhaven Stamping Plant Letter of Violation. In 2005, the Michigan Department of Environmental Quality (DEQ) issued a letter of violation to Ford s Woodhaven Stamping Plant alleging that the facility had failed to properly report emissions from boilers and space heaters, and that the facility had failed to apply for a Title V permit as required by Michigan law. We have resolved this matter and paid a fine of $47,500.

Edison Assembly Plant Concrete Disposal. During demolition of our Edison Assembly Plant, we discovered very low levels of contaminants in the concrete slab. The concrete was crushed and reused by several developers as fill material at ten different off-site locations. The New Jersey Department of Environmental Protection (DEP) asserts that some of these locations may not have been authorized to receive the waste. In March 2006, the DEP ordered Ford, its supplier MIG-Alberici, Inc., and the developer Edgewood Properties, Inc., to investigate, and if appropriate, remove contaminated materials. Ford has substantially completed the work at a number of locations, and Edgewood is completing the investigation and remediation at several locations that it owns. Also in March 2006, the New Jersey Attorney General s office issued a grand jury subpoena and civil information request to Ford. We are fully cooperating with the DEP and the Attorney General s office to resolve this matter.

California Environmental Action. On September 20, 2006, the California Attorney General filed a complaint in the United States District Court for the Northern District of California against Ford, General Motors, Toyota, Honda, DaimlerChrysler and Nissan, seeking monetary damages on a joint and several basis for economic and environmental harm to California caused by global warming. The complaint alleges that cars and trucks sold in the United States constitute an environmental public nuisance under federal and California state common law. We believe that this suit is without merit, and we are filing for dismissal as soon as practicable. Two years ago, eight states (including California) and several other plaintiffs filed a similar environmental public nuisance claim in the United States District Court for the Southern District of New York against five public utilities. That case was dismissed in 2005, when the United States District Court for the Southern District of New York concluded that the suit presented non-justiciable political questions. The public utilities case has been appealed to the United States Court of Appeals for the Second Circuit.

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 (i) that 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) that, if resolved unfavorably to the Company, would likely involve a significant cost.

Explorer Class Actions. An Illinois state court 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. No trial date is currently scheduled.

A California state court 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*. Trial is scheduled for April 2007.

There are also 14 purported statewide class actions pending in several states, raising allegations similar to those raised in *Rowan* and in *Gray*, and seeking similar relief. Bridgestone-Firestone, Inc. (Firestone) was a co-defendant in most of these cases, but settled all claims against it in these cases. The only remaining claims in these cases are based

on the Explorer s alleged rollover propensity.

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ITEM 3. Legal Proceedings (continued)

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 vehicles paint is defective in that there was a substantial risk of topcoat or clearcoat delamination, and that Ford failed to disclose that risk. 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. No trial date is currently scheduled.

Blue Oval Certified Program Class Action. On January 31, 2007, the United States District Court for the District of New Jersey certified a nationwide class of dealers who were franchisees of Ford Motor Company s Ford Division at any time during the period mid-2000 through March 2005. Plaintiffs allege that Ford s Blue Oval Certified Program, which was designed to reward dealers who obtained high customer satisfaction ratings, violated the Robinson-Patman Act, the Automobile Dealer s Day in Court Act, and various state laws. The complaint seeks injunctive and declaratory relief, and unspecified damages (including compensatory, statutory, treble and punitive damages). We plan to appeal the class certification order.

OTHER MATTERS

ERISA Fiduciary Litigation. A purported class action lawsuit is pending in the United States District Court for the Eastern District of Michigan naming as defendants Ford Motor Company and several of our current or former employees and officers (*Nowak, et al. v. Ford Motor Company, et al.*, along with three consolidated cases). The lawsuit alleges that the defendants violated ERISA by failing to prudently and loyally manage funds held in employee savings plans sponsored by Ford. Specifically, the plaintiffs allege (among other claims) that the defendants violated fiduciary duties owed to plan participants by continuing to offer Ford Common Stock as an investment option in the savings plans. The defendants deny the plaintiffs allegations, and intend to defend this matter vigorously.

SEC Pension and Post-Employment Benefit Accounting Inquiry. On October 14, 2004, the Division of Enforcement of the Securities and Exchange Commission (SEC) notified us 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 continue to cooperate with the SEC in providing the information requested.

SEC Restatement Inquiry. We were contacted in November 2006 by the Division of Corporation Finance and the Division of Enforcement of the SEC for additional information regarding the disclosures in the Current Reports on Form 8-K dated October 20, 2006, the Annual Reports on Form 10-K/A for the year ended December 31, 2005, and the Quarterly Reports on Form 10-Q for the period ended September 30, 2006 filed by Ford and Ford Credit relating to our restatement of financial results. As previously disclosed, we are voluntarily cooperating with these informal inquiries.

Diesel Engine Litigation. In January 2007, we filed suit in Michigan state court against the single-source supplier of diesel engines for our Super Duty F-Series pickup trucks. Among other things, our suit seeks reimbursement for warranty and related costs involving prior model-year diesel engines supplied by International Truck and Engine Corporation (International) (a subsidiary of Navistar International Transportation Corporation). As of February 26, 2007, International has announced that it has suspended production of our 6.4L diesel engines. We believe this action is unlawful, and we intend vigorously to pursue our legal rights. Our Super Duty F-Series pickup trucks are among our most profitable vehicles; any protracted interruption of the supply of engines from International could have a substantial adverse effect on our financial condition and results of operation.

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

Not required.

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ITEM 4A. ***Executive Officers of Ford***

Our executive officers and their positions and ages at February 9, 2007 are as follows:

Name	Position	Present Position Held Since	Age
William Clay Ford, Jr. (a)	Executive Chairman and Chairman of the Board	September 2006	49
Alan Mulally (b)	President and Chief Executive Officer	September 2006	61
Lewis W. K. Booth	Executive Vice President -Ford Europe and Premier Automotive Group; Chairman -Jaguar, Land Rover, Volvo and Ford Europe	October 2005	58
Mark Fields	Executive Vice President -President, The Americas	October 2005	46
Donat R. Leclair, Jr.	Executive Vice President and Chief Financial Officer	August 2003	55
Mark A. Schulz (c)	Executive Vice President	October 2005	54
Michael E. Bannister	Group Vice President -Chairman and Chief Executive Officer, Ford Motor Credit Company	April 2004	57
Francisco Codina	Group Vice President -North America Marketing, Sales and Service	March 2006	55
John Fleming	Group Vice President -President and Chief Executive Officer, Ford Europe	October 2005	56
Derrick M. Kuzak	Group Vice President -Global Product Development	December 2006	55
Joe W. Laymon	Group Vice President -Corporate Human Resources and Labor Affairs	October 2003	54
J C. Mays	Group Vice President -Design and Chief Creative Officer	August 2003	52
Ziad S. Ojakli	Group Vice President -Corporate Affairs	January 2004	39
John G. Parker	Group Vice President -Asia Pacific, Africa and Mazda	September 2006	59
Richard Parry-Jones	Group Vice President -Chief Technical Officer	August 2001	55
Peter J. Daniel	Senior Vice President and Controller	September 2006	60
David G. Leitch	Senior Vice President and General Counsel	April 2005	46

(a) Also a Director, Chair of the Office of the

Chairman and Chief Executive, Acting Chair of the Finance Committee and a member of the Environmental and Public Policy Committee of the Board of Directors.

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

(c) Mr. Schulz has announced his intention to retire.

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ITEM 4A. Executive Officers of Ford (continued)

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 recent positions (other than those with Ford or its subsidiaries) held by those officers who have not yet been with Ford or its subsidiaries for five years:

Prior to joining Ford in September 2006, Mr. Mulally served as executive vice president of The Boeing Company, and president and chief executive officer of Boeing Commercial Airplanes. Mr. Mulally also was a member of Boeing s Executive Council, and served as Boeing s senior executive in the Pacific Northwest. He was named Boeing s president of Commercial Airplanes in September 1998; the responsibility of chief executive officer for the business unit was added in March 2001.

Mr. Leitch served as the Deputy Assistant and Deputy Counsel to President George W. Bush from December 2002 to March 2005. From June 2001 until December 2002, he served as Chief Counsel for the Federal Aviation Administration, overseeing a staff of 290 in Washington and the agency s 11 regional offices. Prior to June 2001, Mr. Leitch was a partner at Hogan & Hartson LLP in Washington DC, where his practice focused on appellate litigation in state and federal court.

Mr. Ojakli served as Principal Deputy for Legislative Affairs for President George W. 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 our 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 Stock Exchange 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 2005 and 2006:

	2005				2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common Stock price per share (a)								
High	$14.75	$11.69	$11.19	$10.00	$8.96	$8.05	$9.48	$9.19
Low	10.94	9.07	9.55	7.57	7.39	6.17	6.06	6.85
Dividends per share of Common and Class B Stock (b)	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$0.10	$0.10	$0.05	$0.00

(a) New York Stock Exchange composite interday prices as listed in the price history database available at

www.NYSEnet.com.

(b) On December 15, 2006, we entered into a new secured credit facility which contains a covenant prohibiting us from paying any dividends (other than dividends payable solely in stock) on our Common and Class B Stock, subject to certain limited exceptions. As a result, it is unlikely that we will pay any dividends in the foreseeable future. See Note 15 of the Notes to the Financial Statements for more information regarding the secured credit facility and related covenants.

As of February 9, 2007, stockholders of record of Ford included 172,480 holders of Common Stock (which number does not include 1,425 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.

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ITEM 5. Market for Ford s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities (continued)

During the fourth quarter of 2006, 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, 2006 through Oct. 31, 2006	1,731,686	$ 8.21	0	No publicly announced repurchase program in place
Nov. 1, 2006 through Nov. 30, 2006	1,691,819	$ 8.61	0	No publicly announced repurchase program in place
Dec. 1, 2006 through Dec. 31, 2006	2,124,176	$ 7.32	0	No publicly announced repurchase program in place
Total	5,547,681	$ 7.99	0	

* We currently do not have a publicly announced repurchase program in place. Of the 5,547,681 shares purchased, 5,532,458 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 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. For the full year 2006, we purchased 23,766,410 shares on such basis from participants in SSIP and TESPHE. The remaining shares were acquired from our employees or directors in accordance with our various compensation plans as a result of share withholdings to pay income taxes with respect to: (i) the lapse of restrictions on restricted stock, (ii) the issuance of unrestricted stock, including issuances as a result of the conversion of restricted stock equivalents, or (iii) to pay the exercise price and related income taxes with respect to certain exercises of stock options.

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ITEM 6. ***Selected Financial Data***

The following table sets forth selected financial data for each of the last five years (dollar amounts in millions, except per share amounts).

	2006	2005	2004	2003	2002
SUMMARY OF OPERATIONS					
Total Company					
Sales and revenues	$ 160,123	$ 176,896	$ 172,316	$ 166,095	$ 167,000
Income/(loss) before income taxes	$ (15,051)	$ 1,079	$ 4,109	$ 914	$ 4,036
Provision/(credit) for income taxes	(2,646)	(845)	643	(46)	1,459
Minority interests in net income of subsidiaries	210	280	282	314	367
Income/(loss) from continuing operations	(12,615)	1,644	3,184	646	2,210
Income/(loss) from discontinued operations	2	47	(146)	(143)	(333)
Cumulative effects of change in accounting principle		(251)		(264)	(1,002)
Net income/(loss)	$ (12,613)	$ 1,440	$ 3,038	$ 239	$ 875
Automotive Sector					
Sales	$ 143,307	$ 153,474	$ 147,119	$ 139,433	$ 134,706
Operating income/(loss)	(17,921)	(4,188)	(200)	(1,035)	(507)
Income/(loss) before income taxes	(17,017)	(3,874)	(178)	(1,387)	(957)
Financial Services Sector					
Revenues	$ 16,816	$ 23,422	$ 25,197	$ 26,662	$ 32,294
Income/(loss) before income taxes	1,966	4,953	4,287	2,301	4,993
Total Company Data Per Share of Common and Class B Stock					
Basic:					
Income/(loss) from continuing operations	$ (6.72)	$ 0.89	$ 1.74	$ 0.35	$ 1.21
Income/(loss) from discontinued operations		0.03	(0.08)	(0.08)	(0.19)
Cumulative effects of change in accounting principle		(0.14)		(0.14)	(0.55)
Net income/(loss)	$ (6.72)	$ 0.78	$ 1.66	$ 0.13	$ 0.47
Diluted:					
Income/(loss) from continuing operations	$ (6.72)	$ 0.87	$ 1.59	$ 0.35	$ 1.14
Income/(loss) from discontinued/held-for-sale operations		0.02	(0.07)	(0.08)	(0.16)
Cumulative effects of change in accounting principle		(0.12)		(0.14)	(0.47)

Net income/(loss)	$ (6.72)	$ 0.77	$ 1.52	$ 0.13	$ 0.51
Cash dividends	$ 0.25	$ 0.40	$ 0.40	$ 0.40	$ 0.40
Common stock price range (NYSE Composite)					
High	$ 9.48	$ 14.75	$ 17.34	$ 17.33	$ 18.23
Low	6.06	7.57	12.61	6.58	6.90
Average number of shares of Common and Class B Stock outstanding (in millions)	1,879	1,846	1,830	1,832	1,819
SECTOR BALANCE SHEET DATA AT YEAR-END					
Assets					
Automotive Sector	$ 122,634	$ 113,825	$ 113,251	$ 111,208	$ 100,140
Financial Services Sector	169,050	162,194	189,188	195,509	187,576
Intersector elimination	(1,467)	(83)	(2,753)	(3,356)	(5,865)
Total assets	$ 290,217	$ 275,936	$ 299,686	$ 303,361	$ 281,851
Long-term Debt					
Automotive Sector	$ 28,514	$ 16,900	$ 17,250	$ 18,758	$ 13,363
Financial Services Sector	115,859	103,080	112,080	123,655	121,304
Total long-term debt	$ 144,373	$ 119,980	$ 129,330	$ 142,413	$ 134,667
Stockholders Equity	$ (3,465)	$ 13,442	$ 17,437	$ 13,459	$ 7,633

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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 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. In addition, revenue for finished vehicles we sell to customers or vehicle modifiers on consignment is not recognized until the vehicle is sold to the ultimate customer. Therefore, except for the impact of the daily rental units sold subject to a guaranteed repurchase option, those units placed into our own fleet, and those units for which recognition of revenue is otherwise deferred, wholesale volumes to our customers and revenue from such sales are closely linked with our production.

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 the wholesale finance receivable when it sells the vehicle to a retail customer.

Our Financial Services sector s revenue is generated primarily from interest on finance receivables, net of certain deferred 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, depreciation and operating expenses.

Transactions between our 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, and the Automotive sector makes the related cash payments, over the expected life of the related finance receivable or operating lease. See Note 1 of the Notes to the Financial Statements for a more detailed discussion of transactions and payments between our Automotive and Financial Services sectors. Our 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. These reductions to revenue are accrued at the later of the date the related vehicle sales to the dealer are recorded or at the date the incentive program is both approved and communicated.

Key Economic Factors and Trends Affecting the Automotive Industry

Excess Capacity. According to CSM Worldwide, an automotive research firm, in 2006 the estimated automotive industry global production capacity for light vehicles (about 79 million units) significantly exceeded global production of cars and trucks (about 65 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 16% and 14%, respectively. According to production capacity data projected by CSM Worldwide, global excess capacity conditions could continue for several more years, with planned capacity reductions announced by us and General Motors Corporation offset by increases in capacity additions in Asia Pacific markets.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

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 U.S. manufacturing capacity of Japanese and Korean manufacturers in recent years has contributed, and is likely to continue to contribute, to the severe pricing pressure in that market. For example, in 2006, Toyota completed construction of an assembly plant in Texas that reportedly will be capable of producing at least 200,000 full-size pick-up trucks per year. The reduction of real prices for similarly contented vehicles in the United States has become more pronounced since the late 1990s, and we expect that a challenging pricing environment will continue for some time to come. In addition, the Japanese yen remains weak against the U.S. dollar and at historic lows against the euro, contributing substantially to Japanese vehicle manufacturers significant cost advantage, especially on exports from Japan to these markets. In Europe, the automotive industry also has experienced intense pricing pressure for several years, exacerbated in recent years by the Block Exemption Regulation discussed above in Item 1. Business Automotive Sector.

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 other mature markets, we expect that growth in spending on vehicle mix and content will change generally in line with GDP or above. The benefits of this to revenue growth in the automotive industry are significant. In the United States, for example, consumers in the highest income brackets are buying more often and are more frequently buying upscale.

Although growth in wholesales (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 majority of global industry revenues. We also expect that the North American market will continue as the single largest source of revenue for the automotive industry in the world.

Health Care Expenses. In 2006, our health care expenses for U.S. employees, retirees, and their dependents were $3.1 billion, with about $1.8 billion for postretirement health care and the balance for active employee health care and other retiree expense.

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 continue to increase. For 2007, our trend assumptions for U.S. health care costs include an initial trend rate of six percent, gradually declining to a steady state trend rate of five percent 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 programs, competitive sourcing, and employee cost sharing.

Commodity and Energy Price Increases. Commodity price increases, particularly for steel and resins (which are our two largest commodity exposures and among the most difficult to hedge), have occurred recently and are continuing during a period of strong global demand for these materials. In addition, energy prices continued to increase significantly in 2006. In particular, gasoline prices in the United States increased in volatility and rose to levels over $3.00 per gallon in 2006. Although prices have moderated somewhat, they remain and are expected to remain at high levels. This has had an adverse effect on the demand for full- and medium-sized sport utility vehicles and trucks in the United States.

Currency Exchange Rate Volatility. The U.S. dollar has depreciated against most major currencies since 2002. 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, Aston Martin 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, we experienced margin pressure. Although this pressure was offset partially by gains on foreign exchange derivatives, this offset declines over time due to the expiration of favorable hedges previously put in place. We, like many other automotive manufacturers with sales in the United States, are not always able to price for depreciation of the U.S. dollar due to the extremely competitive pricing environment in the United States.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Other Economic Factors. Additional factors have recently affected the performance of the automotive industry. In the United States, 2006 was a period of a significant contraction in the housing market. As a result, residential construction of new homes declined by 4.2% (after inflation). This adjustment had two effects on automotive sales and revenue directly, through its adverse effect on GDP growth, and as a contributing factor to potential softer demand for truck sales. Both of these factors may continue to contribute to lower light vehicle sales in the United States.

CO_2 Emissions Standards for Medium and Heavy Trucks. New, more stringent U.S. regulatory requirements for truck emissions took effect on January 1, 2007, which increased the cost of engines used in medium and heavy trucks. These standards did not apply to vehicles purchased prior to the implementation of the new regulations. As a result, sales of medium and heavy trucks were elevated in 2006 as buyers pulled ahead orders that they would otherwise have made at a later date. This may result in a deterioration of the sales pace for medium and heavy trucks in 2007.

Trends and Strategies

The global automotive marketplace has become increasingly fragmented and crowded, and we anticipate that this trend will continue to accelerate into the future. Anticipating little growth in the overall volume of vehicles sold in North America for the foreseeable future, we expect more manufacturers to offer an increasing number of products in this market. To address this market reality and the factors and trends affecting the automotive industry discussed above, we have been focusing on the following four key priorities:

Restructuring the Company to be profitable at lower volumes and with a changed vehicle mix;

Accelerating product development and reducing manufacturing complexity;

Obtaining and maintaining adequate liquidity to fund the first two priorities; and

Working together through teamwork and accountability.

Restructuring the Company

To compete more effectively in today s global marketplace, and particularly in North America, we have embarked on a plan to restructure aggressively our Automotive business to address the realities of lower demand, higher fuel prices and the shifting model mix from trucks and large SUVs to more fuel-efficient vehicles.

On January 23, 2006, we announced a major business improvement plan for our North American Automotive operations, which we referred to as the Way Forward plan. On September 15, 2006, responding to changing facts and circumstances, we announced an acceleration of this plan, including actions designed to further reduce operating costs and increase the flow of new products.

Personnel reductions

Acceleration of the Way Forward plan includes additional reductions of our capacity and workforce to contribute to our goal of reducing annual North America operating costs by about $5 billion by the end of 2008 as compared with 2005. Our accelerated plan reduces salaried-related costs through the elimination of the equivalent of about 14,000 salaried-related positions, which represents about one-third of our North American salaried workforce. This reduction includes our elimination of the equivalent of nearly 5,000 salaried positions by the end of 2006; the additional reductions are being achieved through early retirements, voluntary separations and, as necessary, involuntary separations, with most employee departures expected to be completed by the end of the first quarter of 2007.

By agreement with the UAW, we also extended early retirement or separation packages to all U.S. hourly employees, including Ford employees at our ACH plants. Through year-end 2006, about 37,000 hourly employees represented by the UAW had accepted (and not rescinded) an early retirement or separation offer. The vast majority of these employees are expected to separate from the Company by September 2007, though many of the offers include an opportunity for the employee to rescind acceptance until the time of separation. The accelerated plan to sell or close all ACH facilities by the end of 2008 will result in additional personnel reductions.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Overall, including ACH hourly employees, at December 31, 2006 we had about 89,000 hourly employees in North America (including Canada and Mexico), which is down from about 99,500 employees at year-end 2005. By the end of 2008, our plan is to operate with between 55,000 to 60,000 hourly employees in North America.

Capacity alignment

We also intend to reduce and realign our vehicle assembly capacity to bring it more in line with demand and shifting customer preferences. There are several ways to measure our vehicle assembly capacity, two of which are installed capacity and manned capacity. Installed capacity refers to the physical capability of the plant and equipment to assemble vehicles if fully manned. Manned capacity refers to the degree to which the installed capacity has been staffed. In addition, in North America there generally exists the capability to work overtime or schedule downtime to adjust the manned capacity in the short term to match sales.

In the longer term, a useful measure of capacity is maximum installed capacity. This reflects the full physical capacity of the plant and equipment, including maximum overtime. In the shorter term, a useful measure is straight-time manned capacity. This reflects the extent to which labor is being utilized to make the installed capacity capable of actually assembling vehicles.

Since year-end 2005, we have reduced our North American maximum installed capacity (with all plants operating on two shifts) and straight-time manned capacity from 4.8 million units and 3.6 million units, respectively, to 4.1 million units and 3.4 million units, respectively. As indicated in the table below, our plan is to further reduce our North American assembly capacity on both bases by the end of 2008. Our projected North American vehicle production divided by our planned maximum installed assembly capacity of 3.6 million units results in a capacity utilization rate of 84% in 2008. Our North American straight-time manned capacity utilization in 2008 is projected to be 100% as a result of plant idlings as well as shift eliminations and line speed reductions. Reducing our manned capacity in this manner allows us to achieve major cost savings and coordinates plant idlings with planned product changes, which we believe is the best economic approach.

	2008 Projected	
Capacity Measure	**Assembly Capacity (mil. units)**	**Capacity Utilization (percent)**
Maximum Installed *	3.6	84%
Manned Straight-Time	3.0	100%

* Based on a two-shift operating pattern

We plan to reduce our maximum installed assembly capacity in North America by the end of the decade so that it closely matches projected sales of Ford, Lincoln and Mercury brand units.

As part of this reduction, we have announced plans to idle 16 North American manufacturing facilities, including seven vehicle assembly plants, by the end of 2012. Of these, the following nine facilities have been or are planned to be idled by the end of 2008:

Atlanta Assembly Plant (idled in 2006);

Batavia Transmission Plant (to be idled in 2008);

Essex Engine Plant (to be idled in 2007);

Maumee Stamping Plant (to be idled in 2008);

Norfolk Assembly Plant (to be idled in 2007);

St. Louis Assembly Plant (idled in 2006);

Twin Cities Assembly Plant (to be idled in 2008);

Windsor Casting Plant (to be idled in 2007); and

Wixom Assembly Plant (to be idled in 2007).

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Also, in 2007, we have eliminated or plan to eliminate a shift at each of the Norfolk, Twin Cities, St. Thomas (Ontario) and Michigan Truck assembly plants, and plan to add a third crew at the Dearborn Truck Assembly Plant to accommodate additional F-150 truck production.

Additionally, we plan to sell or close all of the 13 remaining ACH plants by the end of 2008. Of these, we have entered into nonbinding memoranda of understanding for the sale of three ACH plants.

Accelerating Product Development and Reducing Manufacturing Complexity

As part of our acceleration of the Way Forward plan, 70 percent of Ford, Lincoln, and Mercury products (by volume) in North America will be new or significantly upgraded by the end of 2008 compared with 2006 models; these efforts will include the expansion of our product lineup in growth segments such as crossover vehicles. We have most recently introduced or will introduce in the next few months the following new models:

Ford North America: the all-new Ford Edge and Lincoln MKX crossover models, substantially new versions of the Ford Expedition and Lincoln Navigator models, new models of our segment-leading Ford Super Duty trucks, and new versions of the Lincoln MKZ sedan and Ford Escape and Mercury Mariner compact sport utility vehicles and hybrids;

Ford Europe: the award-winning Ford S-MAX crossover vehicle (named Car of the Year 2007 in Europe), Galaxy minivan, and Transit truck (named International Van of the Year 2007 in Europe); and

PAG: Jaguar XKR coupe, Land Rover/Freelander/LR2 SUVs, Volvo S80 sedan and Volvo C30 coupe.

In addition, we are continuing to invest in new gasoline, flexible-fuel, diesel, hydrogen, and hybrid powertrains, as well as fuel-saving six-speed transmission technology.

We plan to accelerate the development of new products designed to meet shifting consumer preferences for more fuel-efficient, smaller vehicles. To facilitate this, we have reorganized our product development activities into a unified and integrated global organization that reports directly to our Chief Executive Officer, and we are developing a truly global product plan that takes full advantage of our global product development assets, technologies and people. By leveraging our scale, we will be able to apply our global product development capital and engineering resources to fewer vehicle platforms, drivetrains and powertrains. This commonality of platforms, drivetrains and powertrains, in turn, will reduce complexity in our vehicles and processes. Moreover, as we make our investments in new products, we will continue to improve our production system s quality, productivity and flexibility.

Ford s I-4 Duratec engine family (1.8L through 2.5L) is an example of how commonality can work. The I-4 Duratec is being used by Ford Europe (Focus and Mondeo models), Volvo (S40 model), Ford Asia Pacific (Focus and Volvo S40 models), Ford North America (Focus, Escape/Mariner, Fusion/Milan models), and by Mazda in several of its vehicles. For the Ford-brand models, this is expected to represent production in 2007 of more than 800,000 I-4 Duratec engines and annual production in the next few years of more than one million engines.

Obtaining and Maintaining Adequate Liquidity

As discussed below under Liquidity and Capital Resources Automotive Sector and in Note 15 of the Notes to the Financial Statements, we obtained $23.5 billion of new liquidity in December 2006, including proceeds from a convertible debt offering of $4.95 billion, proceeds from a secured term loan of $7 billion and a secured revolving credit facility of $11.5 billion. This resulted in total automotive liquidity of about $46 billion at year-end 2006, which we believe should allow us to fund the restructuring and product development priorities discussed above, and provide us with a cushion for a recession or other unforeseen events in the near term.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Working Together through Teamwork and Accountability

Our global management team is focused on a single, company-wide global business plan that establishes clear performance goals for the entire Company. This requires all functions product development, purchasing, information technology, manufacturing, etc, across the globe to work together and be accountable to meet the performance goals established by our business plan.

To facilitate this, our senior management team has established weekly meetings to assess our progress against the business plan goals, to identify risks to meeting and opportunities for exceeding those goals, and to make decisions about actions to take to mitigate risks or implement opportunities to stay on track to meet or exceed those goals.

Financial Impact and Assumptions

Execution of the four priorities discussed above is expected to result in our Ford North America segment, and our Automotive sector overall, being profitable in 2009. This projection is based on the following operating assumptions in the 2008 and 2009 time period:

Sales volume and mix of products stabilizing in North America, with U.S. market share in the 14% to 15% range for Ford, Lincoln and Mercury brands, and lower fleet sales as a percentage of total sales. This in part reflects cessation in 2006 of production of the Ford Taurus sedan in Atlanta and Ford Freestar and Mercury Monterey minivans in Oakville, Ontario. In addition, we expect growth in sales volumes outside the United States.

Cumulative reduction in annual operating costs for our Ford North America segment of about $5 billion by the end of 2008 compared with 2005, largely reflecting the personnel and capacity reductions discussed above, and continuing cost improvements in 2009.

For a discussion of our liquidity needs and uses during this period, see Liquidity and Capital Resources Automotive Sector below. For a discussion of the outlook for our 2007 full-year performance, see Outlook below.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS

FULL-YEAR 2006 RESULTS OF OPERATIONS

Our worldwide net income was a loss of $12.6 billion or $6.72 per share of Common and Class B Stock in 2006, down $14 billion from a profit of $1.4 billion or $0.77 per share in 2005.

Results by business sector for 2006, 2005, and 2004 are shown below (in millions):

	2006	2005	2004
Income/(loss) before income taxes			
Automotive Sector	$ (17,017)	$ (3,874)	$ (178)
Financial Services Sector	1,966	4,953	4,287
Total Company	(15,051)	1,079	4,109
Provision for/(benefit from) income taxes (a)	(2,646)	(845)	643
Minority interests in net income/(loss) of subsidiaries (b)	210	280	282
Income/(loss) from continuing operations	(12,615)	1,644	3,184
Income/(loss) from discontinued operations	2	47	(146)
Cumulative effect of change in accounting principle (c)		(251)	
Net income/(loss)	$ (12,613)	$ 1,440	$ 3,038

(a) See Note 18 of the Notes to the Financial Statements for disclosure regarding 2006 effective tax rate.

(b) Primarily related to Ford Europe s consolidated 41%-owned affiliate, Ford Otosan; the decrease in 2006 primarily reflected the impact on deferred tax balances of tax law changes in Turkey. The pre-tax results for Ford Otosan

were $509 million in 2006, $503 million in 2005, and $452 million in 2004. See Item 2. Properties for additional discussion of Ford Otosan.

(c) See Note 27 of the Notes to the Financial Statements.

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 2006, 2005, and 2004 special items by segment or business unit (in millions):

	2006	2005	2004
Automotive Sector			
Ford North America			
Jobs Bank Benefits and personnel-reduction programs (a)	$ (4,760)	$ (401)	$
Pension curtailment charges	(2,741)		
Fixed asset impairment charges	(2,200)		
U.S. plant idlings (primarily fixed-asset write-offs)	(281)		
Visteon-related charges (primarily valuation allowance against employee-related receivables) (b)		(468)	(600)
Fuel-cell technology charges		(116)	(182)
Divestiture of non-core business (Beanstalk Group, LLC)		(59)	
Changes in state non-income tax law		85	
Total Ford North America	(9,982)	(959)	(782)
Ford South America			
Legal settlement relating to social welfare tax liability	110		
Ford Europe			
Personnel-reduction programs	(84)	(510)	(49)
Premier Automotive Group (PAG)			
Jaguar and Land Rover fixed asset impairment charges	(1,600)	(1,300)	
Personnel-reduction programs/Other	(378)	(245)	(110)
Ford Asia Pacific and Africa/Mazda			
Personnel-reduction programs	(103)	(33)	
Mazda pension transfer	115		
Divestiture of non-core business (certain Australia dealerships)		14	(81)
Other Automotive			
Divestiture of non-core businesses (primarily related to Kwik-Fit Group Limited)		152	17
Total Automotive Sector	(11,922)	(2,881)	(1,005)

Financial Services Sector			
Divestiture of non-core business (The Hertz Corporation (Hertz))		1,499	
Property clean-up settlement			45
Total	$ (11,922)	$ (1,382)	$ (960)

(a) See Note 17 of the Notes to the Financial Statements for definition and discussion of Jobs Bank Benefits.

(b) See Notes 19 and 23 of the Notes to the Financial Statements for discussion of Visteon-related charges.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

AUTOMOTIVE SECTOR RESULTS OF OPERATIONS

Our discussion of Automotive sector results of operations is on a pre-tax basis.

2006 Compared with 2005

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

	2006	2005	2006 Over/ (Under) 2005
The Americas			
Ford North America	$ (15,969)	$ (2,444)	$ (13,525)
Ford South America	661	399	262
Total The Americas	(15,308)	(2,045)	(13,263)
Ford Europe and PAG			
Ford Europe	371	(437)	808
PAG	(2,322)	(1,634)	(688)
Total Ford Europe and PAG	(1,951)	(2,071)	120
Ford Asia Pacific and Africa/Mazda			
Ford Asia Pacific and Africa	(250)	42	(292)
Mazda and Associated Operations	245	255	(10)
Total Ford Asia Pacific and Africa/Mazda	(5)	297	(302)
Other Automotive	247	(55)	302
Total	$ (17,017)	$ (3,874)	$ (13,143)

Details of Automotive sector sales and wholesale unit volumes by Automotive segment or business unit for 2006 and 2005 are shown below:

	Sales (in billions)				Wholesales (a) (in thousands)			
	2006	2005	2006 Over/(Under) 2005		2006	2005	2006 Over/(Under) 2005	
The Americas								
Ford North America	$ 69.4	$ 80.6	$ (11.2)	(14)%	3,051	3,410	(359)	(11)%
Ford South America	5.7	4.4	1.3	30	381	335	46	14
Total The Americas	75.1	85.0	(9.9)	(12)	3,432	3,745	(313)	(8)
Ford Europe and PAG								
Ford Europe	30.4	29.9	0.5	2	1,846	1,753	93	5
PAG	30.0	30.3	(0.3)	(1)	730	764	(34)	(4)
	60.4	60.2	0.2		2,576	2,517	59	2

Total Ford Europe and PAG								
Ford Asia Pacific and Africa/Mazda								
Ford Asia Pacific and Africa (b)	6.5	7.7	(1.2)	(15)	517	473	44	9
Mazda and Associated Operations (c)	1.3	0.6	0.7		72	32	40	
Total Ford Asia Pacific and Africa/Mazda	7.8	8.3	(0.5)	(6)	589	505	84	17
Total	$ 143.3	$ 153.5	$ (10.2)	(7)%	6,597	6,767	(170)	(3)%

(a) Wholesale unit volumes generally are reported on a where-sold basis, and include all Ford-badged units and units manufactured by Ford that are sold to other manufacturers, as well as units distributed for other manufacturers. Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option, as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), are included in wholesale unit volumes. For a

discussion of our revenue recognition policy for these sales, see Note 2 of the Notes to the Financial Statements.

(b) Included in wholesale unit volumes of Ford Asia Pacific and Africa are Ford-badged vehicles sold in China and Malaysia by certain unconsolidated affiliates totaling about 159,000 and 87,000 units in 2006 and 2005, respectively. Sales above does not include revenue from these units.

(c) Reflects sales of Mazda6 by our consolidated subsidiary, AutoAlliance International, Inc. (AAI), beginning with the consolidation of AAI in the third quarter of 2005. See Note 13 of the Notes to the Financial Statements.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Details of Automotive sector market share for selected markets for 2006 and 2005, along with the level of dealer stocks as of December 31, 2006 and 2005, are shown below:

	Market Share			Dealer-Owned Stocks (a) (in thousands)		
			2006 Over/(Under)			2006 Over/(Under)
Market	**2006**	**2005**	**2005**	**2006**	**2005**	**2005**
U.S. (b)	16.0%	17.0%	(1.0)pts.	570	733	(163)
South America (b) (c)	11.5	12.0	(0.5)	40	33	7
Europe (b) (d)	8.5	8.5		322	342	(20)
PAG U.S./Europe (d)	1.1/2.1	1.2/2.2	(0.1)/(0.1)	34/67	45/69	(11)/(2)
Asia Pacific and Africa (b) (e) (f)	2.4	2.4		50	50	

(a) Dealer-owned stocks represent our estimate of vehicles shipped to our customers (dealers) and not yet sold by the dealers to their retail customers, as well as some vehicles reflected in our inventory.

(b) Includes only Ford and, in certain markets (primarily U.S.), Lincoln and Mercury brands.

(c) South America market share is based on vehicle retail sales for our six major markets (Argentina, Brazil, Chile, Colombia, Ecuador, and Venezuela).

(d) European 2006 market share is based, in part, on estimated vehicle registrations for our 19 major European markets. See "Item 1. Business" for discussion of these markets.

(e) Asia Pacific and Africa 2006 market share is based on estimated vehicle retail sales for our 12 major markets (Australia, China, Japan, India, Indonesia, Malaysia, New Zealand, Philippines, South Africa, Taiwan, Thailand, and Vietnam).

(f) Dealer-owned stocks for Asia Pacific and Africa include primarily Ford-brand vehicles as well as a small number of units distributed for other manufacturers.

Overall Automotive Sector

The decline in earnings reflected the effect of Jobs Bank Benefits charges and higher personnel-reduction program charges for our Ford North America segment, unfavorable volume and mix (mainly lower market share, adverse product mix in Ford North America, and lower dealer stock levels), pension curtailment charges, impairment charges related to our long-lived assets in Ford North America and Jaguar and Land Rover operations, and unfavorable net

pricing. These adverse factors were offset partially by favorable cost changes. Our efforts to restructure the Ford North America business resulted in the Jobs Bank Benefits and personnel-reduction program charges, and the related pension curtailment charges.

The decline in revenue primarily reflected lower wholesale unit volumes in Ford North America, adverse product mix, and unfavorable net pricing.

The table below details our 2006 cost changes at constant volume, mix, and exchange, excluding special items and discontinued operations (in billions):

Explanation of Cost Changes		**2006 Better/(Worse) Than 2005**
Manufacturing and engineering	Primarily hourly and salaried personnel reductions and continued improvements in our plants and processes.	$ 1.0
Pension and Other Postretirement Employee Benefits (OPEB)	Primarily improvements beginning in the third quarter associated with our retiree health cost sharing agreement with the UAW, and improvements related to revisions to our salaried benefit plans, offset partially by the impact of reducing the discount rate and long-term expected return assumptions.	0.5
Overhead	Primarily related to salaried personnel reductions.	0.4
Net product	Pricing reductions from our suppliers and net design cost reductions, offset primarily by commodity price increases.	0.1
Depreciation and amortization	Acceleration of depreciation resulting from ongoing improvement plans including the announced facility idlings, offset partially by the favorable impact of impairment charges for long-lived assets and the favorable impact of the change in special tooling amortization methodology.	(0.1)
Warranty-related	Primarily reflects adjustments to Jaguar and Land Rover warranty accruals related to unfavorable prior model-year performance and the non-recurrence in 2006 of favorable reserve adjustments, offset partially by favorable coverage performance in Ford North America.	(0.1)
Advertising & Sales Promotions	Primarily increased advertising costs.	(0.3)
Total		$ 1.5

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

The Americas

Ford North America Segment. The decline in earnings primarily reflected the effect of Jobs Bank Benefits charges and higher personnel-reduction program charges, unfavorable volume and mix (mainly adverse product mix, lower market share, a reduction in stock levels, and lower industry volumes), pension curtailment charges, unfavorable net pricing, and impairment charges related to our long-lived assets, offset partially by favorable cost changes. The favorable cost changes reflected improvements in pension and OPEB costs, manufacturing and engineering costs, warranty-related costs, and overhead costs.

Ford South America Segment. The increase in earnings primarily reflected favorable net pricing, favorable volume and mix more than accounted for by higher industry volume, and a legal settlement relating to social welfare tax liability, offset partially by unfavorable cost changes. The unfavorable cost changes primarily reflected higher net product costs, and manufacturing and engineering costs.

Ford Europe and PAG

Ford Europe Segment. The improvement in results primarily reflected reduced charges for personnel-reduction programs, favorable volume and mix, and favorable cost changes, offset partially by unfavorable changes in currency exchange rates. The favorable cost changes primarily reflected lower overhead costs, warranty-related costs, net product costs, and manufacturing and engineering costs, offset partially by higher pension costs.

PAG Segment. The decline in earnings primarily reflected unfavorable warranty-related costs mainly associated with adjustments to warranty accruals for prior model-year vehicles (mainly at Jaguar and Land Rover), unfavorable currency exchange (mainly related to the expiration of favorable hedges), and higher impairment charges for long-lived assets of the Jaguar and Land Rover operations. These adverse factors were offset partially by favorable manufacturing and engineering costs, favorable volume and mix (mainly improved product and market mix, offset partially by lower market share primarily at Volvo and Jaguar and lower levels of dealer stocks) and lower net product costs.

Ford Asia Pacific and Africa/Mazda

Ford Asia Pacific and Africa/Mazda Segment. The decline in results for Ford Asia Pacific and Africa primarily reflected unfavorable volume and mix (mainly adverse product mix including lower large car sales in Australia, and lower market share) and unfavorable changes in currency exchange rates. Wholesale unit volumes for the year increased, while revenue for the same period decreased. The increase in wholesale unit volumes is explained by higher unit sales in China and India, offset partially by declines in other markets (primarily Australia and Taiwan). Our revenue excludes wholesale unit volumes at our unconsolidated affiliates, primarily those in China. The decrease in revenue primarily reflects changes in currency exchange rates and a higher mix of small cars relative to the same period last year.

The decrease in earnings for Mazda and Associated Operations primarily reflected the non-recurrence of gains on our investment in Mazda convertible bonds, and charges for personnel-reduction programs at AAI, offset partially by our share of a gain Mazda realized on the transfer of its pension liabilities back to the Japanese government. During the second half of 2005 and the first quarter of 2006, we converted to equity all of our Mazda convertible bonds, and, therefore, will no longer have income effects from mark-to-market adjustments for these bonds.

Other Automotive

The improvement in results primarily reflected higher returns on invested cash, and a higher average cash portfolio, offset partially by the non-recurrence of a gain on the sale of our remaining interest in Kwik-Fit Group Limited.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

2005 Compared with 2004

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

	2005	2004	2005 Over/ (Under) 2004
The Americas			
Ford North America	$ (2,444)	$ 525	$ (2,969)
Ford South America	399	144	255
Total The Americas	(2,045)	669	(2,714)
Ford Europe and PAG			
Ford Europe	(437)	177	(614)
PAG	(1,634)	(830)	(804)
Total Ford Europe and PAG	(2,071)	(653)	(1,418)
Ford Asia Pacific and Africa/Mazda			
Ford Asia Pacific and Africa	42	(36)	78
Mazda and Associated Operations	255	118	137
Total Ford Asia Pacific and Africa/Mazda	297	82	215
Other Automotive	(55)	(276)	221
Total	$ (3,874)	$ (178)	$ (3,696)

Details of Automotive sector sales and wholesale unit volumes by Automotive segment or business unit for 2005 and 2004 are shown below:

	Sales (in billions)				Wholesales (a) (in thousands)			
	2005	2004	2005 Over/(Under) 2004		2005	2004	2005 Over/(Under) 2004	
The Americas								
Ford North America	$ 80.6	$ 83.0	$ (2.4)	(3)%	3,410	3,613	(203)	(6)%
Ford South America	4.4	3.0	1.4	46	335	291	44	15
Total The Americas	85.0	86.0	(1.0)	(1)	3,745	3,904	(159)	(4)
Ford Europe and PAG								
Ford Europe	29.9	26.5	3.4	13	1,753	1,736	17	1
PAG	30.3	27.6	2.7	10	764	773	(9)	(1)
Total Ford Europe and PAG	60.2	54.1	6.1	11	2,517	2,509	8	

Ford Asia Pacific and Africa/Mazda								
Ford Asia Pacific and Africa (b)	7.7	7.0	0.7	10	473	429	44	10
Mazda and Associated Operations (c)	0.6		0.6		32		32	
Total Ford Asia Pacific and Africa/Mazda	8.3	7.0	1.3	19	505	429	76	18
Total	$ 153.5	$ 147.1	$ 6.4	4%	6,767	6,842	(75)	(1)%

(a) Wholesale unit volumes generally are reported on a where-sold basis, and include all Ford-badged units and units manufactured by Ford that are sold to other manufacturers, as well as units distributed for other manufacturers. Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option, as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), are included in wholesale unit volumes. For a discussion of our revenue

recognition policy for such sales, see Note 2 of the Notes to the Financial Statements.

(b) Included in wholesales of Ford Asia Pacific and Africa are Ford-badged vehicles sold in China and Malaysia by certain unconsolidated affiliates totaling about 87,000 and 66,000 units in 2005 and 2004, respectively. Sales above does not include revenue from these units.

(c) Reflects sales of Mazda6 by our consolidated subsidiary, AAI, beginning with the consolidation of AAI in the third quarter of 2005. See Note 13 of the Notes to the Financial Statements.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Details of Automotive sector market share for selected markets for 2005 and 2004, along with the level of dealer stocks as of December 31, 2005 and 2004, are shown below:

	Market Share			Dealer-Owned Stocks (a) (in thousands)		
			2005 Over/(Under)			2005 Over/(Under)
Market	**2005**	**2004**	**2004**	**2005**	**2004**	**2004**
U.S. (b)	17.0%	18.0%	(1.0)pts.	733	794	(61)
South America (b) (c)	12.0	11.9	0.1	33	29	4
Europe (b) (d)	8.5	8.6	(0.1)	342	356	(14)
PAG U.S./Europe (d)	1.2/2.2	1.3/2.3	(0.1)/(0.1)	45/69	41/68	4/1
Asia Pacific and Africa (b) (e) (f)	2.4	2.3	0.1	50	46	4

(a) Dealer-owned stocks represent our estimate of vehicles shipped to our customers (dealers) and not yet sold by the dealers to their retail customers, as well as some vehicles reflected in our inventory.

(b) Includes only Ford and, in certain markets (primarily U.S.), Lincoln and Mercury brands.

(c) South America market share is based on vehicle retail sales for our six major markets (Argentina, Brazil, Chile, Colombia, Ecuador, and Venezuela).

(d) European market share is based, in part, on vehicle registrations for our 19 major European markets.

(e) Asia Pacific and Africa market share is based on vehicle retail sales for our 12 major markets (Australia, China, Japan, India, Indonesia, Malaysia, New Zealand, Philippines, South Africa, Taiwan, Thailand, and Vietnam).

(f) Dealer-owned stocks for Asia Pacific and Africa include primarily Ford-brand vehicles as well as a small number of units distributed for other manufacturers.

Overall Automotive Sector

The decline in earnings reflected losses at our Ford North America segment, an impairment charge for long-lived assets of Jaguar and Land Rover operations, and higher charges for personnel reduction programs, offset partially by favorable market performance at Land Rover and increased earnings at our Ford South America segment, Other Automotive, and Ford Asia Pacific and Africa/Mazda segment.

The improvement in revenues primarily reflected favorable product mix and favorable changes in currency exchange rates.

The Americas

Ford North America Segment. The decline in results primarily reflected lower U.S. market share, unfavorable cost changes, lower dealer stock levels, charges for personnel-reduction programs, and unfavorable currency exchange. Unfavorable cost changes primarily reflected higher warranty-related costs and net product costs.

Ford South America Segment. The increase in earnings primarily reflected favorable net pricing, higher industry volumes, and favorable currency exchange, offset partially by unfavorable cost changes. The unfavorable cost changes primarily reflected higher net product costs and overhead costs.

Ford Europe and PAG

Ford Europe Segment. The decline in results primarily reflected higher charges for personnel-reduction programs, unfavorable net pricing, and adverse product and market mix, offset partially by favorable cost changes and favorable changes in currency exchange rates. The favorable cost changes primarily reflected lower manufacturing and engineering costs offset partially by unfavorable warranty-related costs.

PAG Segment. The decline in earnings primarily reflected an impairment charge for long-lived assets of the Jaguar and Land Rover operations, unfavorable currency exchange, and higher charges for personnel-reduction programs, offset partially by favorable net pricing, improved product mix primarily reflecting the impact of new Land Rover products, and favorable cost changes. The favorable cost changes primarily reflected lower warranty-related costs and favorable manufacturing and engineering costs offset partially by higher net product costs.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)
Ford Asia Pacific and Africa/Mazda

Ford Asia Pacific and Africa/Mazda Segment. The improvement in results for Ford Asia Pacific and Africa primarily reflected the non-recurrence of 2004 charges related to the disposition of certain dealerships, favorable changes in currency exchange rates, and a gain on the disposal of our investment in Mahindra & Mahindra Ltd., offset partially by unfavorable product mix, higher costs associated with new products and facilities in China, and charges for personnel-reduction programs.

The increase in earnings for Mazda and Associated Operations primarily reflected gains on our investment in Mazda convertible bonds and improved Mazda operating results. In the second half of 2005, we converted to equity about 82.5% of our Mazda convertible bonds.

Other Automotive

The improvement in earnings primarily reflected higher returns on invested cash and a gain on the sale of non-core businesses, offset partially by lower interest on tax refunds from prior-year federal and state tax matters (about $450 million in 2005 compared with $600 million in 2004).

FINANCIAL SERVICES SECTOR RESULTS OF OPERATIONS

Our discussion of Financial Services sector results of operations is on a pre-tax basis.

2006 Compared with 2005

Details of the full-year Financial Services sector *Revenues* and *Income/(loss) before income taxes* for 2006 and 2005 are shown below:

	Revenues (in billions)			Income/(Loss) Before Income Taxes (in millions)		
	2006	2005	2006 Over/(Under) 2005	2006	2005	2006 Over/(Under) 2005
Ford Credit	$ 16.5	$ 15.9	$ 0.6	$ 1,953	$ 2,923	$ (970)
Other Financial Services	0.3	0.1	0.2	13	(39)	52
Hertz operating results		7.4	(7.4)		974	(974)
Gain on sale of Hertz*					1,095	(1,095)
Total	$ 16.8	$ 23.4	$ (6.6)	$ 1,966	$ 4,953	$ (2,987)

* The segment presentation of the gain on sale of Hertz in Note 24 of the Notes to the Financial Statements is $1,006 million in the Hertz segment and $89 million in Other Financial Services.

We sold Hertz during the fourth quarter of 2005, resulting in declines in *Revenues* and *Income/(loss) before income taxes* during 2006.

Ford Credit

The decrease in Ford Credit's full-year earnings primarily reflected higher borrowing costs, higher depreciation expense, and the impact of lower average receivable levels in its managed portfolio. These were offset partially by market valuations, primarily related to non-designated derivatives and reduced operating costs.

Ford Credit reviews its business performance from several perspectives, including:

On-balance sheet basis. Includes the receivables and leases Ford Credit owns and securitized receivables and leases that remain on Ford Credit s balance sheet (including other structured financings and factoring transactions that have features similar to securitizations);

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

*Securitized off-balance sheet basi*s. Includes receivables sold in securitization transactions that are not reflected on Ford Credit s balance sheet;

Managed basis. Includes on-balance sheet and securitized off-balance sheet receivables and leases that Ford Credit continues to service; and

Serviced basis. Includes managed receivables and leases 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 a managed and on-balance sheet 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, Ford Credit generally reviews the performance of its 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 receivable levels are shown in the table below (in billions):

	December 31,	
	2006	**2005**
On-Balance Sheet		
Finance receivables		
Retail installment	$ 70.4	$ 65.7
Wholesale	35.2	39.6
Other	3.8	4.6
Total finance receivables, net	109.4	109.9
Net investment in operating leases	25.9	22.2
Total on-balance sheet*	$ 135.3	$ 132.1
Memo: Allowance for credit losses included above	$ 1.1	$ 1.6
Securitized Off-Balance Sheet		
Finance receivables		
Retail installment	$ 12.2	$ 18.0
Wholesale		
Other		
Total finance receivables	12.2	18.0
Net investment in operating leases		
Total securitized off-balance sheet	$ 12.2	$ 18.0
Managed		
Finance receivables		
Retail installment	$ 82.6	$ 83.7
Wholesale	35.2	39.6
Other	3.8	4.6

Total finance receivables, net	121.6	127.9
Net investment in operating leases	25.9	22.2
Total managed	$ 147.5	$ 150.1
Serviced	$ 149.5	$ 153.0

* At December 31, 2006 and 2005, includes finance receivables of $56.5 billion and $44.7 billion, respectively, that have been sold for legal purposes in securitizations that do not satisfy the requirements for accounting sale treatment. In addition, at December 31, 2006 and 2005, includes net investment in operating leases of $17.3 billion and $6.5 billion, respectively, that have been sold for legal purposes in securitizations that do not satisfy the requirements for accounting sale treatment. These underlying securitized assets are available only for payment of the debt or other obligations

issued or arising in the securitization transactions; they are not available to pay Ford Credit s other obligations or the claims of Ford Credit s other creditors.

Managed receivables decreased from year-end 2005, primarily reflecting lower wholesale receivable levels, offset partially by increased net investment in operating leases. On-balance sheet receivable levels increased, primarily reflecting the impact of U.S. public retail transactions in 2006 being reported on-balance sheet. Securitized off-balance sheet receivables declined for the same reason.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

The following table shows worldwide credit losses net of recoveries (charge-offs) for Ford Credit for the various categories of financing during the periods indicated. The loss-to-receivables ratios, which equal charge-offs divided by the average amount of receivables outstanding for the period, are shown below for Ford Credit s on-balance sheet and managed portfolios.

	2006	2005	2006 Over/(Under) 2005
Charge-offs (in millions)			
On-Balance Sheet			
Retail installment and lease	$ 465	$ 681	$ (216)
Wholesale	44	23	21
Other	14	2	12
Total on-balance sheet	$ 523	$ 706	$ (183)
Reacquired Receivables (retail)*	$ 2	$ 22	$ (20)
Securitized Off-Balance Sheet			
Retail installment and lease	$ 84	$ 127	$ (43)
Wholesale			
Other			
Total securitized off-balance sheet	$ 84	$ 127	$ (43)
Managed			
Retail installment and lease	$ 551	$ 830	$ (279)
Wholesale	44	23	21
Other	14	2	12
Total managed	$ 609	$ 855	$ (246)
Loss-to-Receivables Ratios			
On-Balance Sheet			
Retail installment and lease	0.50%	0.72%	(0.22) pts.
Wholesale	0.12	0.09	0.03
Total including other	0.39%	0.57%	(0.18) pts.
Managed			
Retail installment and lease	0.51%	0.73%	(0.22) pts.
Wholesale	0.12	0.06	0.06
Total including other	0.41%	0.54%	(0.13) pts.

* Reacquired receivables reflect the amount of receivables that

resulted from the accounting consolidation of Ford Credit s FCAR Owner Trust retail securitization program (FCAR) in the second quarter of 2003.

Charge-offs and loss-to-receivable ratios for Ford Credit s on-balance sheet, securitized off-balance sheet, and managed portfolios declined from a year ago, primarily reflecting fewer repossessions. These improvements resulted from a higher quality retail installment and lease portfolio, and enhancements to Ford Credit s collection practices.

Shown below is an analysis of Ford Credit s allowance for credit losses and its allowance for credit losses as a percentage of end-of-period receivables (net finance receivables and net investment in operating leases) for its on-balance sheet portfolio for the years ended December 31 (dollar amounts in billions). During 2006, Ford Credit updated its analysis of contract liquidation data which affected the level of required reserves for credit losses. In addition, Ford Credit implemented refinements to certain modeling techniques that are used in determining the allowance for credit losses.

	2006	2005
Allowance for Credit Losses		
Balance, beginning of year	$ 1.6	$ 2.4
Provision for credit losses	0.1	0.2
Deductions		
Charge-offs before recoveries	1.0	1.2
Recoveries	(0.5)	(0.5)
Net charge-offs	0.5	0.7
Other changes, principally amounts related to finance receivables sold and translation adjustments	0.1	0.3
Net deductions	0.6	1.0
Balance, end of year	$ 1.1	$ 1.6
Allowance for credit losses as a percentage of end-of-period net receivables	0.81%	1.19%

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

The decrease in Ford Credit s allowance for credit losses primarily reflected improved charge-off performance, and changes in its assumptions and modeling techniques ($81 million) described above that affected the allowance.

Other Financial Services

The improvement in results primarily reflected the non-recurrence of the 2005 write-off of aircraft leases related to the bankruptcy of Delta Air Lines, and, in 2006, higher property sales.

2005 Compared with 2004

Details of the full-year Financial Services sector *Income/(loss) before income taxes* for 2005 and 2004 are shown below:

	Income/(Loss) Before Income Taxes (in millions)		
	2005	2004	2005 Over/(Under) 2004
Ford Credit	$ 2,923	$ 3,710	$ (787)
Other Financial Services	(39)	84	(123)
Hertz operating results (a)	974	493	481
Gain on sale of Hertz (b)	1,095		1,095
Total	$ 4,953	$ 4,287	$ 666

(a) Includes amortization expense related to intangibles recognized upon consolidation of Hertz.

(b) The segment presentation of the gain on sale of Hertz in Note 24 of the Notes to the Financial Statements is $1,006 million in the Hertz segment and $89 million in Other Financial Services.

Ford Credit

Ford Credit s income before income taxes was down $787 million, which includes $405 million for reduced market valuations primarily related to non-designated derivatives. The remaining decrease in earnings primarily reflected higher borrowing costs and the impact of lower retail receivable levels, offset partially by improved credit loss performance.

Hertz

The increase in Hertz operating results primarily reflected the cessation of depreciation on long-lived assets from the point Hertz was held for sale (i.e., September 2005) until it was sold, higher car and equipment rental volumes and improved pricing for equipment rental.

Other Financial Services

The decline in results primarily reflected the non-recurrence of a 2004 property clean-up settlement, and, in 2005, lower property sales and the write-off of aircraft leases related to the bankruptcy of Delta Air Lines.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY AND CAPITAL RESOURCES

Automotive Sector

Our strategy is to ensure that 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, net marketable securities, loaned securities and certain assets contained in a Voluntary Employee Beneficiary Association trust (VEBA), a trust which may be used to pre-fund certain types of company-paid benefits for U.S. employees and retirees. We include in Automotive gross cash those VEBA assets that are invested in shorter-duration fixed income investments and can be used within 18 months to pay for benefits (short-term VEBA assets). Gross cash as of December 31, 2006, 2005, and 2004 is detailed below (in billions):

	December 31,		
	2006	**2005**	**2004**
Cash and cash equivalents	$ 16.0	$ 13.4	$ 10.1
Marketable securities	11.3	6.9	8.3
Loaned securities	5.3	3.4	1.1
Total cash, marketable securities and loaned securities	32.6	23.7	19.5
Securities-In-Transit *	(0.5)		
Short-term VEBA assets	1.8	1.4	4.1
Gross cash	$ 33.9	$ 25.1	$ 23.6

* The purchase or sale of marketable securities for which the cash settlement was not made by period-end.

In managing our business, we classify changes in Automotive gross cash into two categories: operating-related, and other (which includes the impact of certain special items, contributions to funded pension plans, the net effect of the change in our VEBA on gross cash, capital transactions with the Financial Services sector, acquisitions and divestitures, dividends paid to shareholders, changes in Automotive debt, and other primarily financing-related). Our key metrics are operating-related cash flow, which best represents the ability of our Automotive operations to generate cash, and Automotive gross cash. We believe the cash flow analysis reflected in the table below, which differs from a cash flow statement presented in accordance with generally accepted accounting principles in the United States (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 of continuing operations*, the most directly comparable GAAP financial measure.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

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

	2006	2005	2004
Gross cash at end of period	$ 33.9	$ 25.1	$ 23.6
Gross cash at beginning of period	25.1	23.6	25.9
Total change in gross cash	$ 8.8	$ 1.5	$ (2.3)
Operating-related cash flows			
Automotive income/(loss) before income taxes	$ (17.0)	$ (3.9)	$ (0.2)
Special items	11.9	2.9	1.0
Capital expenditures	(6.8)	(7.1)	(6.3)
Depreciation and special tools amortization	7.1	6.9	6.4
Changes in receivables, inventory and trade payables (a)	(2.0)	1.3	(1.1)
Other (b)	1.2	(1.4)	1.4
Total operating-related cash flows	(5.6)	(1.3)	1.2
Other changes in cash			
Cash impact of personnel-reduction programs and Jobs Bank Benefits accrual			