FORD MOTOR CO
Form 10-K
February 26, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

R Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2008

or

£ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission file number 1-3950

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

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

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

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

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

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(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. Yes R No £

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or Section 15(d) of the Act.
Yes £ No R

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 R No £

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

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 R Accelerated filer £ Non-accelerated filer £

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

As of June 30, 2008, Ford had outstanding 2,182,758,311 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 ($4.81 per share), the aggregate market value of such Common Stock was $10,499,067,476. 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, 2008 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 14, 2009 (our "Proxy Statement"), which is incorporated by reference under various Items of this Report as indicated below.

As of February 13, 2009, Ford had outstanding 2,325,468,761 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 ($1.76 per share), the aggregate market value of such Common Stock was $4,092,825,019.

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.

Exhibit Index begins on page 95.

PART I

ITEM 1. Business

Ford Motor Company (referred to herein as "Ford", the "Company", "we", "our" or "us") was incorporated in Delaware in 1919. We acquired the business of a Michigan company, also known as Ford Motor Company, 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. 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, 2008 ("2008 Form 10-K Report" or "Report"), extensive information about our Company can be found 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, Code of Ethics for Senior Financial Personnel, Code of Ethics for Directors, Standards of Corporate Conduct for all employees, and the Charters for each of our Board Committees. In addition, any amendments to our Code of Ethics or waivers granted to our directors and executive officers will be posted in this area of our website. All of these documents can be accessed by logging onto our website and clicking on the "Investors," then "Company Information," and then "Corporate Governance" links, and 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, 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 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. 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. We post each of these documents on our website as soon as reasonably practicable after it is electronically filed with the SEC.

To access our SEC reports or amendments or the Section 16 filings, log onto our website and click "Investors," then "Company Reports," and then "View S.E.C. Filings" which links to a list of reports filed with the SEC.

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

ITEM 1. Business (continued)

OVERVIEW

Segments. 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 as of December 31, 2008 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, as well as the sale of Mazda6 vehicles produced by our consolidated subsidiary AutoAlliance International, Inc. ("AAI").
	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.
	Volvo	Primarily includes the sale of Volvo brand vehicles and related service parts throughout the world (including Europe, North and South America, and Asia Pacific Africa), together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Ford Asia Pacific Africa	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.
Financial Services:	Ford Motor Credit Company	Primarily includes vehicle-related financing, leasing, and insurance.
	Other Financial Services	Includes a variety of businesses including holding companies, real estate, and the financing and leasing of some Volvo vehicles in Europe.

* As reported in our Quarterly Report on Form 10-Q for the period ended June 30, 2008, we sold Jaguar and Land Rover effective June 2, 2008. Also, during the fourth quarter of 2008, we sold a portion of our equity in Mazda, reducing our ownership percentage from approximately 33.4% to 13.78%. As a result, beginning with the fourth

quarter of 2008, we account for our interest in Mazda as marketable securities and no longer report Mazda as an operating segment.

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 26 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 the Notes.

ITEM 1. Business (continued)

AUTOMOTIVE SECTOR

General

We sell cars and trucks throughout the world. In 2008, our total ongoing Automotive operations sold approximately 5,407,000 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.

As of December 31, 2008, our vehicle brands include Ford, Mercury, Lincoln, and Volvo. Substantially all of our cars, trucks and parts are marketed through retail dealers in North America, and through distributors and dealers (collectively, "dealerships") outside of North America, the substantial majority of which are independently owned. At December 31, 2008, the approximate number of dealerships worldwide distributing our vehicle brands was as follows:

Brand	Number of Dealerships at December 31, 2008*
Ford	11,827
Mercury	1,871
Lincoln	1,427
Volvo	2,341

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* 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 dealerships for retail sale, we also sell cars and trucks to our dealerships for sale to fleet customers, including daily rental car companies, commercial fleet customers, leasing companies, and governments. 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.

Through our dealer network and other channels, we also provide retail customers with a wide range of after-sale vehicle services and products, including 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 ServiceSM, Ford Custom AccessoriesTM, Ford Extended Service PlanSM, and MotorcraftSM.

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 to determine whether and when to replace an existing vehicle, as evidenced by the recent sudden and dramatic drop in industry sales volume with the current economic crisis. That decision 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 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 manufacturers. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview" for discussion of the impact of the current global credit and economic crisis on our worldwide vehicle sales.

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, fuel efficiency, functionality, and 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.

ITEM 1. Business (continued)

The profitability of our business is affected by many factors, including:

- Wholesale unit volumes;
- Margin of profit on each vehicle sold; which in turn is affected by many factors, including:
  - Mix of vehicles and options sold;
  - Costs of components and raw materials necessary for production of vehicles;
  - Level of "incentives" (e.g., price discounts) and other marketing costs;
  - Costs for customer warranty claims and additional service actions; and
  - Costs for safety, emission and fuel economy technology and equipment; and
- As with other manufacturers, a high proportion of relatively fixed costs, including labor costs, such that small changes in wholesale unit volumes can significantly affect overall profitability.

In addition, our 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 market share and production levels. A discussion of our strategies to compete in this pricing environment is set forth 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 or delivered to our customer (i.e., our dealer or distributor). See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview" 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 also experience some seasonal fluctuation in the business. Generally, production in many markets 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 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 from numerous suppliers around the world for use in production of our vehicles. These 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. There are always risks and uncertainties, however, 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, and expect this portfolio to continue to grow as we actively pursue additional technological innovation. We currently have approximately 15,000 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. Although 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.

ITEM 1. Business (continued)

Warranty Coverage and Additional Service Actions. We currently 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 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 service action costs for each vehicle sold by us are accrued for at the time of sale. Accruals for estimated warranty and 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.

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 29 of the Notes to the Financial Statements.

Industry Sales Volume

During 2008, the global economic crisis dramatically reduced industry sales volume in the United States and Europe, and began to slow growth in other markets around the world. The following chart shows industry sales volume for the United States, and for the markets we track in Europe, South America and Asia Pacific Africa for the last five years (in millions of units):

	Industry Volume *				
	2008	2007	2006	2005	2004
United States	13.5	16.5	17.1	17.5	17.3
Ford Europe	16.7	18.1	17.9	17.6	17.6
Ford South America	4.3	4.1	3.2	2.7	2.2
Ford Asia Pacific Africa	20.9	20.4	18.6	17.3	16.1

* Throughout this section, industry sales volume includes sales of medium and heavy trucks. See discussion of each market below for definition of the markets we track.

Much of the decline in industry sales volume in 2008 occurred toward the end of the year, with the seasonally adjusted annual rate of sales in the fourth quarter of 2008 reaching 10.7 million units and 14.8 million units in the United States and the markets we track in Europe, respectively. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview" for discussion of the impact of declining industry sales volume.

United States

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

	U.S. Industry Sales Years Ended December 31,				
	2008	2007	2006	2005	2004
Cars	7.1	7.9	8.1	7.9	7.7
Trucks	6.4	8.6	9.0	9.6	9.6

ITEM 1. Business (continued)

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. With the introduction of vehicles with sport utility features built on a car platform (crossover utility vehicles or "CUVs"), however, 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 CUVs (i.e., vehicles with sport utility features built on a car platform) as sport utility vehicles ("SUVs"). In addition, we have classified all of our luxury cars as "premium," regardless of size; premium SUVs and CUVs 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.

The following tables show the proportion of U.S. car and truck unit sales by segment for the industry (including domestic and foreign-based manufacturers):

	U.S. Industry Vehicle Mix of Sales by Segment Years Ended December 31,				
	2008	2007	2006	2005	2004
CARS					
Small	22.9%	19.8%	19.0%	17.1%	16.0%
Medium	15.5	13.6	13.1	13.1	14.0
Large	6.1	7.0	7.5	7.4	6.8
Premium	7.8	7.8	7.6	7.8	7.7
Total U.S. Industry Car Sales	52.3	48.2	47.2	45.4	44.5
TRUCKS					
Compact Pickup	2.8%	3.2%	3.5%	3.9%	4.0%
Bus/Van	6.1	6.6	7.8	8.1	8.5
Full-Size Pickup	11.9	13.5	13.3	14.6	14.7
SUV/CUV	24.9	26.5	25.2	25.5	26.1
Medium/Heavy	2.0	2.0	3.0	2.5	2.2
Total U.S. Industry Truck Sales	47.7	51.8	52.8	54.6	55.5
Total U.S. Industry Vehicle Sales	100.0%	100.0%	100.0%	100.0%	100.0%

	Ford U.S. Vehicle Mix of Sales by Segment* Years Ended December 31,				
	2008	2007	2006	2005	2004
CARS					
Small	15.0%	12.8%	12.5%	11.6%	10.9%
Medium	9.3	7.8	12.9	8.2	9.4
Large	7.7	8.4	8.2	8.9	5.4
Premium	3.1	2.5	3.1	2.8	2.9
Total Ford U.S. Car Sales	35.1	31.5	36.7	31.5	28.6
TRUCKS					
Compact Pickup	3.4%	3.0%	3.4%	4.1%	5.0%
Bus/Van	6.5	7.2	8.6	8.9	9.4
Full-Size Pickup	27.2	29.1	29.6	30.7	30.2
SUV/CUV	27.4	28.6	21.1	24.3	26.4

Medium/Heavy	0.4	0.6	0.6	0.5	0.4
Total Ford U.S. Truck Sales	64.9	68.5	63.3	68.5	71.4
Total Ford U.S. Vehicle Sales	100.0%	100.0%	100.0%	100.0%	100.0%

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* These data include sales of Ford, Lincoln, and Mercury vehicles.

As the tables above indicate, the shift from cars to trucks that began in the 1980s started to reverse in 2005. Prior to 2005, the proportion of trucks sold in the industry and by Ford had been increasing, reflecting higher sales of traditional, truck-based SUVs and full-size pickups. In recent years, the percentage of cars sold in the overall market and by Ford trended higher, primarily due to increases in the small car segment. In 2008, Ford's overall vehicle mix changes in the United States generally mirrored the overall industry. Gains in our small car segment market share were largely explained by the strength of our redesigned Focus, with the Fusion and Milan contributing to our increased medium car mix.

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"), Chrysler LLC ("Chrysler"), Toyota Motor Corporation ("Toyota"), Honda Motor Company ("Honda"), and Nissan Motor Company ("Nissan"). The following tables show U.S. car and truck market share for Ford (Ford, Lincoln, and Mercury brand vehicles only) and for the other five leading vehicle manufacturers.

ITEM 1. Business (continued)

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

	U.S. Car Market Shares (a) Years Ended December 31,				
	2008	2007	2006	2005	2004
Ford	5.0%	4.6%	5.8%	5.4%	5.1%
General Motors	10.0	9.8	10.0	10.2	10.7
Chrysler	3.6	4.2	4.1	4.0	3.6
Toyota	10.0	9.2	8.6	7.4	6.3
Honda	6.6	5.3	4.9	4.8	4.9
Nissan	4.4	3.8	3.2	3.3	3.0
All Other (b)	12.7	11.3	10.6	10.3	10.9
Total U.S. Car Deliveries	52.3%	48.2%	47.2%	45.4%	44.5%

	U.S. Truck Market Shares (a) Years Ended December 31,				
	2008	2007	2006	2005	2004
Ford	9.2%	10.0%	10.2%	11.6%	12.9%
General Motors	12.1	13.6	14.1	15.6	16.4
Chrysler	7.2	8.4	8.4	9.2	9.1
Toyota	6.4	6.7	6.3	5.6	5.6
Honda	4.0	4.1	3.9	3.6	3.2
Nissan	2.7	2.7	2.8	2.9	2.7
All Other (b)	6.1	6.3	7.1	6.1	5.6
Total U.S. Truck Deliveries	47.7%	51.8%	52.8%	54.6%	55.5%

	U.S. Combined Car and Truck Market Shares (a) Years Ended December 31,				
	2008	2007	2006	2005	2004
Ford	14.2%	14.6%	16.0%	17.0%	18.0%
General Motors	22.1	23.4	24.1	25.8	27.1
Chrysler	10.8	12.6	12.5	13.2	12.7
Toyota	16.4	15.9	14.9	13.0	11.9
Honda	10.6	9.4	8.8	8.4	8.1
Nissan	7.1	6.5	6.0	6.2	5.7
All Other (b)	18.8	17.6	17.7	16.4	16.5
Total U.S. Car and Truck Deliveries	100.0%	100.0%	100.0%	100.0%	100.0%

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(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, an industry shift away from our traditionally stronger segments (e.g., traditional SUVs and full-size pickups), reduced vehicle sales to daily rental companies, and the discontinuation of a number of our vehicle lines over the last several years.

In addition to the Ford, Lincoln, and Mercury vehicles we sell in the U.S. market, we also sell a significant number of Volvo vehicles. Our market share for Volvo vehicles in the United States (which is reflected in "All Other" in the tables above) was approximately 0.5% in 2008, down 0.1 percentage points from 2007. This decline in market share primarily reflected industry shift away from the premium SUV segment.

ITEM 1. Business (continued)

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 in the United States, and the amount of those combined 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,				
	2008	2007	2006	2005	2004
Daily Rental Units	237	304	447	440	415
Commercial and Other Units	217	268	277	256	243
Government Units	153	158	162	141	133
Total Fleet Units	607	730	886	837	791
Percent of Total U.S. Car and Truck Sales	32%	30%	32%	28%	25%

* These data include sales of Ford, Lincoln, and Mercury vehicles.

Lower fleet sales in 2008 primarily reflected planned reductions in sales to daily rental car companies, combined with declines in rental, commercial and government sectors. Although total fleet industry volume was down for the year, we improved year-over-year market share in both the commercial and government segments. We continue to maintain government segment market share leadership over all brands.

Europe

Industry Sales Data

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, 2008 market data are based on estimated registrations currently available; percentage change is measured from actual 2007 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 2008, vehicle manufacturers sold approximately 16.7 million cars and trucks in these 19 markets, down 7.7% from 2007 levels. Ford's combined car and truck market share in Europe (for our Ford and Volvo brands) in 2008 was approximately 10% (about the same as 2007).

Britain and Germany are our highest-volume markets within Europe. Any change in the British or German market has a significant effect on our total European automotive profits. The global economic crisis appears to have impacted the British market earlier than most, and we do not expect Germany to experience as great an impact. For 2008 compared with 2007, total industry sales were down 10.7% in Britain, and down 2.9% in Germany. Our Ford-brand combined car and truck share in these markets in 2008 was 16.3% in Britain (up 0.4 percentage points from the previous year), and 7% in Germany (up 0.3 percentage points from the previous year). Volvo market share in Europe was 1.3%, down 0.2 percentage points from 2007.

Although not included in the 19 markets above, several additional markets in the region contribute to our Ford Europe segment results. In 2008, Ford's share of the Turkish market decreased by 2.1 percentage points to 14.7%, but was still the seventh year in a row that the Ford brand led the market in sales in Turkey. We also are experiencing strong sales in Russia, where sales of Ford-brand vehicles increased approximately 6% to about 187,000 units in 2008. We believe that the impact of the global economic crisis began to impact these markets during the fourth quarter of 2008, however, so that full-year 2009 industry sales volumes are likely to decline from 2008 levels.

Motor Vehicle Distribution in Europe. The Commission of the European Union ("Commission") regulates the way motor vehicles are sold and repaired throughout the European Community through its Block Exemption Regulation. Manufacturers must either operate an "exclusive" distribution system – with exclusive dealer sales territories combined 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. These rules make it easier for a dealer to display and sell multiple brands in one store without the need to maintain separate facilities.

ITEM 1. Business (continued)

We, like most other automotive manufacturers, use a "selective" distribution system, allowing us to restrict the dealer’s ability to sell our vehicles to unauthorized resellers. The Block Exemption Regulation also contains rules concerning the repair industry. These rules permit a manufacturer to require the use of its parts in warranty and recall work, but allow repair facilities to 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 applies with respect to all of our dealers.

The current Block Exemption Regulation, first adopted in 2002, has contributed and continues to contribute to an increasingly competitive market for vehicles and parts and ongoing price convergence. This has contributed to an increase in marketing expenses, negatively affecting the profitability of our Ford Europe and Volvo segments. We anticipate that this trend may continue as dealers and parts suppliers become increasingly organized and established. The current Block Exemption Regulation expires on May 31, 2010.

Other Markets

Canada and Mexico. Canada and Mexico also are important markets for us. In Canada, industry sales of new cars and trucks in 2008 were approximately 1.67 million units, down 1% from 2007 levels; industry sales were better in 2008 than 2007 for the first ten months of the year, with industry sales beginning to show signs of the impact of the global economic slowdown in November 2008. Industry sales of new cars and trucks in Mexico were approximately 1.07 million units in 2008, down about 6.5% from 2007; industry sales were stronger year-over-year for the first three quarters of 2008, with a steep decline during the fourth quarter of 2008 due to the global economic slowdown. Our combined car and truck market share (including all of our brands sold in these markets) in 2008 was 12.6% in Canada (down 0.7 percentage points from the previous year), and 12.1% in Mexico (down 1.2 percentage points from the previous year).

South America. Brazil, Argentina, and Venezuela are our principal markets in South America. Industry sales in 2008 were approximately 2.8 million units in Brazil (up 14.5% from 2007), approximately 600,000 units in Argentina (up 7.9% from 2007), and approximately 270,000 units in Venezuela (down 44.8% from 2007). Our combined car and truck share for Ford-brand vehicles in these markets was 10% in Brazil (down 0.8 percentage points from 2007), 12.4% in Argentina (down 1.3 percentage points from 2007), and 15.7% in Venezuela (up 0.5 percentage points from 2007). In Brazil and Argentina, 2008 industry sales were strong in comparison to 2007 for the first nine months of the year; beginning in October 2008, industry sales in both Brazil and Argentina experienced a steep decline due to the impact of the global economic slowdown.

Asia Pacific. Australia, China, India, South Africa, and Taiwan are our principal markets in this region. Industry sales in 2008 were approximately 1 million units in Australia (down 3.6% from 2007), approximately 9.9 million units in China (up 8.5% from 2007), approximately 2 million units in India (about the same as 2007), approximately 490,000 units in South Africa (down 20.2% from 2007), and approximately 230,000 units in Taiwan (down 29.7% from 2007). Our combined car and truck share in these markets (including sales of Ford-brand vehicles, and market share for certain unconsolidated affiliates particularly in China) was 10.3% in Australia (about the same as 2007), 1.9% in China (down 0.2 percentage points from 2007), 1.4% in India (down 0.5 percentage points from 2007), 6.9% in South Africa (down 0.7 percentage points from 2007) and 5.5% in Taiwan (down 2.1 percentage points from 2007). 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 are in the process of significantly increasing our presence in India with more investment in manufacturing capacity. As announced in January 2008, we are investing $500 million to expand our current manufacturing facility in Chennai to begin production of a new small car and build a fully-integrated and flexible engine manufacturing plant planned to begin production by 2010. We have also been increasing our presence in China, with investment in manufacturing capacity, introduction of new products, and expansion of distribution channels.

We also have an ownership interest in Mazda, which we reduced during the fourth quarter of 2008 from approximately 33.4% to 13.78%.

ITEM 1. Business (continued)

FINANCIAL SERVICES SECTOR

Ford Motor Credit Company LLC

Ford Motor Credit Company LLC ("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 financing products fall into the following three categories:

- Retail financing. Purchasing retail installment sale 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 to purchase or finance dealership real estate.

Ford Credit also services the finance receivables and leases that it originates and purchases, makes loans to our 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-rate financing programs), and from payments made under wholesale and other dealer loan financing programs.

Ford Credit does business in all states in the United States and in all provinces in Canada through automotive dealer financing branches and 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,		
United States			
Financing share – Ford, Lincoln, and Mercury	2008	2007	2006
Retail installment and lease	39%	38%	44%
Wholesale	77	78	80
Europe			
Financing share – Ford			

Retail installment and lease	28%	26%	27%
Wholesale	98	96	95

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 routinely sponsor special-rate financing programs available only through Ford Credit. Pursuant to 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 and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information about these support payments.

ITEM 1. Business (continued)

On November 6, 2008, we and Ford Credit entered into an Amended and Restated Support Agreement (“Support Agreement”) (formerly known as the Amended and Restated Profit Maintenance Agreement). Pursuant to the Support Agreement, if Ford Credit’s managed leverage for a calendar quarter were to be higher than 11.5 to 1 (as reported in Ford Credit’s then-most recent Form 10-Q Report or Form 10-K Report), Ford Credit could require us to make or cause to be made a capital contribution to Ford Credit in an amount sufficient to have caused such managed leverage to have been 11.5 to 1. A copy of the Support Agreement was filed as Exhibit 10 to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008. No capital contributions have been made to Ford Credit pursuant to the Support Agreement. In addition, Ford Credit has an agreement to maintain FCE’s net worth in excess of $500 million. No payments have been made by Ford Credit to FCE pursuant to the agreement during the 2006 through 2008 period.

GOVERNMENTAL STANDARDS

Many governmental standards and regulations relating to safety, fuel economy, emissions control, noise control, vehicle recycling, substances of concern, vehicle damage, 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 other automotive 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.

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 regulations promulgated by the U.S. Environmental Protection Agency ("EPA") set standards for cars and light trucks that grow increasingly more stringent through the 2009 model year. The Tier 2 emissions standards also extend durability requirements for emissions components 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 standards and requirements for EPA-defined "heavy-duty" vehicles and engines (those vehicles with 8,500-14,000 pounds gross vehicle weight). These standards and requirements include stringent evaporative hydrocarbon standards for gasoline vehicles, and stringent exhaust emission standards for all vehicles. In order to meet the diesel standards, manufacturers must employ after-treatment technologies, such as diesel particulate filters, which require periodic customer maintenance. These technologies add significant cost to the emissions control system, and present potential issues associated with consumer acceptance. The EPA and manufacturers are engaged in discussions over the vehicle technologies for maintenance and emissions control and the warning systems that will be used to alert motorists to the need for maintenance to these systems.

U.S. Requirements – California and Other State Emissions Standards. Pursuant to the Clean Air Act, California may seek a waiver from the EPA to establish unique emissions control standards; each new or modified proposal requires a new waiver of preemption from the EPA. California has received a waiver from the EPA to establish its own unique emissions control standards for certain regulated pollutants. New vehicles and engines sold in California must be certified by the California Air Resources Board ("CARB"). CARB's current low emission vehicle or "LEV II" emissions standards treat most light-duty trucks the same as passenger cars, and require both types of vehicles to meet stringent new 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. Rulemaking action to establish LEV III is expected to begin in 2009, and is expected to impose increasingly stringent emissions standards.

ITEM 1. Business (continued)

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.

Since 1990, the California program has included requirements for manufacturers to produce and deliver for sale zero-emission vehicles ("ZEVs"), which emit no 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.

The ZEV mandate initially required that a specified percentage of each manufacturer's vehicles produced for sale in California be ZEVs. Over time, the regulations were modified to reflect the fact that the development of battery-electric technology progressed at a slower pace than anticipated by CARB. 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.

Although the 2003 amendments appear to reflect a recognition by CARB that battery-electric vehicles do not currently 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.

In accordance with CARB's ZEV regulations, a panel of independent experts undertook a review of the feasibility of the ZEV requirements and issued its findings in 2007. The panel found that both battery-electric and fuel cell vehicles will be in a pre-commercial stage through 2015, and that they are not likely to be produced in large volumes in that time frame due to issues of technology and cost. Partially in response to the panel's findings, CARB finalized a set of revisions to its ZEV regulations in February 2009. For the 2012-2014 model years, the modifications reduce the number of fuel cell and/or battery-electric vehicles necessary to satisfy the regulations, but this reduction must be offset by the production of a substantial number of plug-in hybrid vehicles or hydrogen internal combustion vehicles instead. For the 2015 model year and beyond, CARB has directed a complete overhaul of its ZEV, LEV, and greenhouse gas ("GHG") regulations. Some current elements of the ZEV program (e.g., requirements to build low-emissions vehicles with zero evaporative emissions) will be transferred to the LEV or GHG programs. The ZEV program will focus exclusively on battery-electric, fuel cell, plug-in hybrid, and hydrogen internal combustion engine technologies, and the regulations are likely to require manufacturers to produce ever-increasing numbers of vehicles with these technologies. Compliance with the ZEV mandate will require costly actions that could have a substantial adverse effect on our sales volume and profits, depending on consumer acceptance of the vehicles and the cost and availability of ZEV components, among other things.

The Clean Air Act permits other states that do not meet National Ambient Air Quality Standards ("NAAQS") to adopt California's motor vehicle emissions standards no later than two years before the affected model year. In addition to California, fourteen states, primarily located in the Northeast and Northwest, have adopted the California standards (including California's greenhouse gas provisions). Twelve of these states also adopted the ZEV requirements. These fourteen states, together with California, account for more than 30% of Ford's current light-duty vehicle sales volume in the United States. More states are in the process of adopting or considering adoption of the California standards. As a result of EPA's 2006 NAAQS regulation, many new states are eligible to adopt California emissions standards (see additional discussion in "Stationary Source Emissions Control" below). 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 in other states to meet California's in-use standards.

ITEM 1. Business (continued)

U.S. Requirements – Warranty, Recall, and On-Board Diagnostics. The Clean Air Act permits the EPA and CARB to 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), and 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. In December 2007, CARB finalized a new set of regulations governing warranty reporting and field actions. The new rules provide for mandatory remedial action (typically either recall or an extended warranty) if warranty claims and failure rates on emissions-related components reach specified thresholds, even if the vehicles in the field continue to comply with all applicable emissions standards. CARB's decision to disconnect field action decisions from the emissions performance of the vehicles was unprecedented, and in January 2008 an aftermarket trade association initiated litigation seeking to overturn certain aspects of the new regulations. In March 2008, the Engine Manufacturers Association, of which we are a member, initiated litigation challenging CARB's authority to disconnect emissions performance from field action decisions and other related claims. These lawsuits were subsequently merged. In December 2008, the Superior Court of Los Angeles, California overturned these regulations, holding that the disconnect between field action and emissions performance was impermissible. The court also held that extended warranties could continue to be utilized in lieu of recalls where appropriate and mutually agreed to by CARB. CARB has until June 2009 to correct its regulations in accordance with the court decision. No appeal has been filed.

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 require substantial engineering resources to create compliant systems. 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. 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. Stringent new emissions standards ("Stage IV Standards") were applied to new passenger car certifications beginning January 1, 2005, and to new passenger car registrations beginning January 1, 2006. The comparable light commercial truck Stage IV Standards went into effect for new certifications beginning January 1, 2006, and for new registrations beginning January 1, 2007. 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 certain government incentive programs.

The EU commenced a program in 2004 to determine the specifics for further changes to vehicle emission standards, and in 2007 the European Commission published a proposed law for Stage V/VI emissions. The law would further restrict the amount of particulate and nitrogen oxide emissions from diesel engines, and tighten some regulations for gasoline engines. Stage V emissions requirements will be introduced beginning in September 2009 for vehicle registrations beginning in 2011, and Stage VI requirements will apply beginning in September 2014. Both Stages V and VI will require the deployment of particulate trap technology, and Stage VI will require additional after-treatment for nitrogen oxides. These technology requirements will add cost and further erode the fuel economy cost/benefit advantage of diesel vehicles.

ITEM 1. Business (continued)

Particle number measurement has been introduced for diesel vehicles beginning with calendar year 2011, and for gasoline vehicles from Stage V. Stage V gasoline particle number limit values and all Stage V OBD thresholds have yet to be established by the Commission; proposed regulations are expected to be introduced in 2010. Vehicles equipped with Selective Catalyst Reduction systems require a driver inducement and warning system to prevent the vehicle being operated for a significant period of time if the reductant (urea) dosing tank is empty. The Stage V/VI emission legislation also mandated the internet provision of all repair information (not just emissions-related).

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. Canadian criteria emissions regulations are aligned with U.S. federal Tier 2 requirements.

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 some 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 of complying with these requirements could be substantial.

The Clean Air Act also requires the EPA to periodically review and update its 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 increasing the stringency of the standard for fine particulate matter (particles 2.5 micrometers in diameter or less), while maintaining the existing standard for coarse particulate matter (particles between 2.5 and 10 micrometers in diameter). The EPA estimates that the new standard will put approximately 124 counties into non-attainment status for fine particulate matter. Various parties filed petitions for review of the final particulate matter rules in the U.S. Court of Appeals for the District of Columbia Circuit, in most cases seeking more stringent standards for both fine and coarse particulate matter. The Alliance of Automobile Manufacturers (the "Alliance," an industry trade group including BMW Group, Chrysler, Ford, General Motors, Mazda, Mitsubishi Motors, Porsche, Toyota, and Volkswagen) intervened to oppose further changes to the EPA's final rule. The case was argued in September 2008; no ruling has yet been issued.

In March 2008, the EPA promulgated rules setting a new ozone NAAQS at a level more stringent than the pre-existing standard. The EPA estimates that as a result of the new standard, the number of counties out of attainment for the ozone NAAQS could increase by 300%. A number of states and environmental groups have filed suit seeking to compel EPA to issue an even more stringent ozone standard. An industry coalition (not including the Alliance) has intervened in support of the ozone standard as promulgated by the EPA.

Even under the particulate matter and ozone NAAQS as revised by the EPA, 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 existence of additional non-attainment areas can also lead to increased pressure for more stringent mobile source emissions standards as well. The cost of complying with the requirements necessary to help bring non-attainment areas into compliance with the revised NAAQS could be substantial.

ITEM 1. Business (continued)

European Requirements. In Europe, environmental legislation is driven by EU law, in most cases in the form of EU directives that must be converted into national legislation. All of our European plants are located in the EU region, with the exception of one in St. Petersburg, Russia, and Ford Otosan. 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 which came into effect in October 2007 primarily affects vehicle manufacturing plants, which must upgrade their paint shops to meet the new requirements. The cost of complying with these requirements could be substantial.

The European Emission Trading Scheme requires large emitters of carbon dioxide within the EU to monitor and annually report CO2 emissions, and each is obliged every year to return an amount of emission allowances to the government that is equivalent to its CO2 emissions in that year. The impact of this regulation on Ford Europe primarily involves our on-site combustion plants, and we expect that compliance with this regulation may be costly as the system foresees stringent CO2 emission reductions in progressive stages. Periodic emission reporting also is required of EU Member States, in most cases defined in the permits of the facility. The 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, in part 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 any of our vehicles, the cost of such recall campaigns could be substantial. As of January 14, 2009, there were pending before NHTSA six investigations relating to alleged safety defects or potential compliance issues in our vehicles.

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 which have already resulted in or are to result in new regulations and product content requirements. Established regulations include window sticker safety ratings ("Stars on Cars" ratings) and regulations that affect power window switches, door retention and side-impact protection. NHTSA has not yet established required regulations that will affect ejection mitigation, rollover prevention, and roof strength.

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 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 U.S. 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 addressed this issue in a final rule published on October 18, 2007 that re-established class distinctions. In September 2008, NHTSA began publishing non-confidential TREAD data to the public.

The Cameron Gulbransen Kids Transportation Safety Act of 2007 (Kids and Cars Safety Act) passed into law in 2008 mandates that NHTSA enact regulations related to rearward visibility and brake-to-shift interlock, and mandates that NHTSA consider regulations related to automatic reversal functions on power windows. The cost to comply with these requirements may be substantial.

Foreign Requirements. Canada, the EU, and countries in South America, the Middle East, and Asia Pacific markets also have safety standards and regulations applicable to motor vehicles, and are likely to adopt additional or more stringent requirements in the future. Recent examples of such legislation for the EU include an increase in the scope and severity of the already existing pedestrian protection legislation, the introduction of a requirement that all vehicles include mandatory dedicated daytime running lamps for new vehicle types as of 2011, and a general trend to extend the scope of passenger car regulations from 2500 kilograms ("kg") up to 3500 kg gross vehicle mass. Global Technical Regulations ("GTRs") developed under the auspices of the United Nations ("UN") continue to have increasing impact on automotive safety activities. In 2008, GTRs on Electronic Stability Control, Head Restraints, and Pedestrian Protection were each adopted by the UN "World Forum for the Harmonisation of Vehicle Regulations," and are now in different stages of national implementation. While global harmonization is fundamentally supported by the auto industry in order to reduce complexity, national implementation yet may introduce subtle differences into the system. South American examples of more stringent safety requirements include more severe impact requirements being developed in Brazil, the planned adoption of mandatory driver and passenger frontal airbags in Argentina, Brazil and Ecuador, and the introduction of mandatory antilock braking system in Argentina and Brazil. Canadian safety legislation and regulations are similar to those in the United States, and the differences that do exist generally have not prevented the production of common product for both markets. Recent amendments to Canadian standards have incorporated United Nations Economic Commission for Europe standards as a compliance option, where equivalency exists. The possibility of more stringent or different requirements exists.

ITEM 1. Business (continued)

Motor Vehicle Fuel Economy

Ford's ability to comply with CAFE or greenhouse gas emissions standards depends heavily on the alignment of those standards with actual consumer demand, as well as adequate lead time to make the necessary product changes. Ford has plans to increase the fuel economy of its vehicles through the deployment of various fuel-saving technologies, some of which have been announced publicly, and through a shift in its fleet mix toward smaller and lighter vehicles. Even given these plans, there are limits on Ford's ability to achieve required fuel economy increases in its vehicles in a given time frame. These limits relate to the costs and effectiveness of the available technologies; consumer acceptance of the new technologies and of changes in fleet mix; the willingness of consumers to absorb the additional costs of new technologies; the appropriateness (or lack thereof) of certain technologies for use in particular vehicles; and the human and engineering resources necessary to deploy new technologies across a wide range of products and powertrains in a short time.

The ongoing economic downturn may affect Ford's ability to absorb the costs of deploying new fuel-efficient technologies. Another variable is fluctuation in fuel prices. Consumers are more likely to pay for vehicles with fuel-efficient technologies when fuel prices are relatively high, as was the case in mid-2008; when fuel prices are relatively low as they were toward the end of 2008, the extent of consumer demand for such technologies is less clear. If consumers demand vehicles that are relatively large, have high performance, and/or are feature-laden, while regulatory standards require the production of vehicles that are smaller and more economical, the mismatch of supply and demand would have an adverse effect on both regulatory compliance and our profitability. 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 necessary technology can be developed).

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; light truck standards are set by NHTSA under a rulemaking process. In 2006, NHTSA issued a final rule changing the structure of the light-truck fuel economy standards for model year 2008 and beyond. The final rule employs a new "reformed" approach to fuel economy standards in which each manufacturer's CAFE obligation is based on the specific mix of vehicles it sells. A manufacturer's light truck CAFE is now calculated on a basis that relates fuel economy targets to vehicle size. These fuel economy targets become increasingly stringent with each new model year. Through 2010, manufacturers have the option of complying with the "reformed" program or an alternative set of "unreformed" standards promulgated by NHTSA. Beginning with the 2011 model year, all manufacturers must comply under the reformed program. Also 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).

ITEM 1. Business (continued)

In December 2007, Congress enacted new energy legislation restructuring the CAFE program and requiring NHTSA to set new CAFE standards beginning with the 2011 model year. The key features of the bill are as follows: 1) it maintains the current distinction between cars and trucks; 2) it requires NHTSA to set "reformed" CAFE standards for cars along the lines of the reformed truck standards described above; 3) it calls for NHTSA to set car and truck standards such that the combined fleet of cars and trucks in the United States achieves a 35 mile per gallon fleet average by model year 2020; 4) it allows manufacturers to trade credits among their CAFE fleets; and 5) it retains CAFE credits for the manufacture of flexible-fuel vehicles, but phases them out by model year 2020. Domestic passenger cars also are subject to a minimum fleet average of the greater of 27.5 miles per gallon or 92% of NHTSA's projected fleet average fuel economy for domestic and imported passenger cars for that model year.

In April 2008, NHTSA issued a proposed rule setting forth CAFE standards for cars and light trucks for the 2011-2015 model years. The proposed standards were based on the "reformed" approach to CAFE as required by Congress. The proposal entailed a significantly more rapid rate of increase in fuel economy than past NHTSA rulemakings on CAFE. The proposed rule also contained new provisions on credit trading, intra-company credit transfers between fleets, and incentives for the production of flexible fuel vehicles, among other things. The proposed rule went through a notice-and-comment process, and NHTSA was expected to issue a final rule at the end of 2008. However, the Bush Administration ultimately decided not to issue a final rule and to let the incoming Obama Administration complete the rulemaking process.

Pressure to increase CAFE standards stems in part from concerns about the impact of carbon dioxide and other GHG 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 is functionally 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 U.S. 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 decision. In July 2005, the Court held that the EPA had exercised reasonable discretion in determining not to regulate carbon dioxide as a pollutant.

The matter was appealed, and in April 2007 the U.S. Supreme Court ruled that GHGs constitute "air pollutants" subject to regulation pursuant to the Clean Air Act. The ruling did not specifically require the EPA to regulate greenhouse gases; rather, it directed the EPA to either issue an "endangerment" finding pursuant to the Clean Air Act (that greenhouse gases endanger public health or welfare), or explain why it could not or would not do so. In the wake of this ruling, the Bush Administration announced its intention to promulgate new federal rules regulating greenhouse gas emissions from motor vehicles. President Bush signed an Executive Order directing the Department of Transportation, the Department of Energy, and the EPA to cooperate in this effort.

In July 2008, the EPA released an Advance Notice of Proposed Rulemaking ("ANPR") related to the potential regulation of GHGs under the Clean Air Act. The ANPR sought public comment on the appropriateness of a finding by EPA that GHGs "endanger" public health and welfare, and on the ramifications of such a finding. The ANPR included a lengthy discussion of potential regulatory programs under the Clean Air Act that EPA might implement to reduce GHG emissions from both mobile and stationary sources. With respect to mobile sources, EPA sought comment on the possibility of setting long-term, fleet-average CO_2 standards for motor vehicles, which would be the functional equivalent of establishing fuel economy standards. Depending on the level of stringency, motor vehicle

GHG standards could effectively supplant any CAFE standards set by NHTSA. The ANPR also discussed the possibility of establishing a cap-and-trade system to reduce mobile source GHG emissions. The ANPR addressed potential stationary source regulations as well. A wide range of groups have filed comments on the ANPR; the task of reviewing the comments and determining what action to take has been left to the Obama Administration. At the time the ANPR was released, the Bush Administration made it clear that the regulatory proposals outlined in the ANPR did not represent Administration policy, primarily because of the burdensome nature of the proposals and their potential adverse effect on the U.S. economy.

U.S. Requirements – California and Other State Standards. In July 2002, California enacted Assembly Bill 1493 ("AB 1493"), a law mandating that CARB promulgate GHG standards for light-duty vehicles beginning with model year 2009. In September 2004, CARB adopted California GHG 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.

ITEM 1. Business (continued)

Whenever California adopts new or modified vehicle emissions standards, the state must apply to the EPA for a waiver of preemption of the new or modified standards under Section 209 of the Clean Air Act. Since the AB 1493 rules were adopted by California as "emissions" rules under the Clean Air Act, they require this waiver of federal preemption. In March 2008, EPA published a decision formally denying California's request for a waiver of preemption. California has challenged that decision in the U.S. Court of Appeals for the District of Columbia Circuit. The court has set a briefing schedule pursuant to which briefing on the petition will be concluded by March 2009; no date for oral argument has been set. In January 2009, California submitted a petition for reconsideration of the March 2008 waiver denial, and President Obama issued a memorandum directing the EPA to revisit the waiver decision. The EPA has initiated a new notice-and-comment process as part of its reconsideration of the waiver. It is also likely that the federal government will seek a stay of the ongoing D.C. Circuit litigation over the March 2008 waiver denial while it reconsiders the waiver request.

In addition to the question of Clean Air Act preemption, which is being addressed through the EPA's waiver decision and the ensuing litigation, there is also the question of preemption of the AB 1493 standards by the federal CAFE law. CAFE prohibits states from enacting or enforcing regulations "related to" fuel economy when federal standards are in effect. In December 2004, the Alliance and other plaintiffs (several automobile dealers, two individual automobile manufacturers, and another automotive trade association) filed suit in federal district court in California, seeking to overturn the AB 1493 standards. The suit challenges the regulation on several bases, including preemption under the federal CAFE law. In 2008, the U.S. District Court for the Eastern District of California issued a final judgment holding that: i) California is enjoined from enforcing AB 1493 regulations in the absence of an EPA waiver; and ii) the federal CAFE law does not preempt California from regulating motor vehicle GHGs. Plaintiffs appealed the second ruling to the U.S. Court of Appeals for the Ninth Circuit, and briefing on the appeal is underway.

Other states have adopted, or are in the process of adopting, CARB's GHG standards. These states include New York, Massachusetts, Maine, Vermont, Rhode Island, Connecticut, New Jersey, Pennsylvania, Oregon, Washington, Maryland, New Mexico, Florida, and Arizona. Several other states are known to be considering the adoption of such rules.

The Alliance, along with other plaintiffs, filed suit in federal court in Vermont and Rhode Island challenging those states' adoption of California's AB 1493 rules. The Vermont case went to trial in April 2007. In September 2007, the U.S. District Court for the District of Vermont upheld Vermont's GHG rules, finding that they were not preempted by federal fuel economy law. Specifically, the court held that the state GHG rules were insulated from a preemption challenge because they were subject to a waiver process under the federal Clean Air Act. The court also held that, even if questions of federal preemption were applicable, the GHG rules should be upheld because some portions of the regulations give credit for vehicle modifications that do not relate specifically to improving fleet average fuel economy. The Alliance is appealing the District Court's decision to the U.S. Court of Appeals for the Second Circuit; briefing has been completed and we are awaiting oral argument. In the Rhode Island case, the District Court recently issued a ruling dismissing the claims of the automobile trade association and automobile manufacturer plaintiffs on collateral estoppel grounds; the dealer plaintiffs remain in the case. The trade associations and manufacturers are seeking an immediate appeal of the collateral estoppel ruling to the U.S. Court of Appeals for the First Circuit.

In September 2006, California also enacted the Global Warming Solutions Act of 2006 (also known as Assembly Bill 32 ("AB 32")). This law mandates that statewide GHG emissions be capped at 1990 levels by the year 2020, which would represent a significant reduction from current levels. It also requires the monitoring and annual reporting of GHG emissions by all "significant" sources, and delegates authority to CARB to develop and implement GHG 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 GHG emissions to achieve equivalent or greater reductions than mandated by AB 1493. Although the full ramifications of AB 32 are not known, CARB has initiated a rulemaking process under AB 32 to develop so-called "Cool Car Standards." The program is intended to set minimum standards for reflectivity of automotive paints and glass. The goal is to promote lower interior temperatures in vehicles, thereby reducing the air conditioning load and leading to fewer GHG emissions. The automobile industry has concerns about the availability of paints and coatings to meet the reflectivity standards, along with the safety implications of the standards. CARB is expected to issue a final rule by the spring of 2009.

ITEM 1. Business (continued)

The recent developments with respect to anticipated new CAFE standards, potential EPA GHG standards for motor vehicles, and state-level attempts to impose GHG standards on automobiles pose very significant concerns for us. These regulatory initiatives have the potential to impose three different competing and conflicting regimes of fuel economy standards. Compliance with all three, or even two, of these regimes would at best add enormous complexity to our planning processes, and at worst be virtually impossible. The CAFE standards proposed by NHTSA in 2008 represented a significant challenge in and of themselves, but if NHTSA builds upon its history of setting tough but reasonable CAFE standards based on a consideration of technological feasibility and economic practicability, we believe it is likely that the new federal CAFE standards can be workable, albeit costly, within our business limitations. It is highly questionable whether we could accommodate an additional layer of GHG regulations imposed by EPA under the Clean Air Act, which has a much more onerous certification and enforcement regime than the CAFE law. Finally, California's AB 1493 rules seek to impose stringent, state-specific requirements that are not workable within our current business limitations.

If any of one these regulatory regimes, or a combination of them, impose and enforce extreme fuel economy or GHG standards, we likely would be forced to take various actions that could have substantial adverse effects on our sales volume and profits. Such actions likely would include restricting offerings of selected engines and popular options; increasing market support programs for our most fuel-efficient cars and light trucks in order to maintain compliance; and ultimately curtailing the production and sale of certain vehicles such as family-size, luxury, and high-performance cars, SUVs and "crossover" vehicles, and full-size light trucks, in order to maintain compliance. These actions might need to occur on a state-by-state basis, in response to the AB 1493 rules, or they may need to be taken at the national level if either the CAFE standards or the EPA GHG standards are excessively stringent. We believe it is critical that policymakers work toward a single, nationwide set of fuel economy/GHG standards that achieve desired levels of fuel economy improvement and GHG reductions in a workable fashion.

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. Though that suit has been dismissed by the trial court, California's Attorney General has filed an appeal. If California were to prevail in this litigation, it could encourage similar suits in other states and municipalities. A judgment against defendants also could result in the imposition of judicially-mandated standards for GHG emissions that could 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.

European Requirements. The EU is a party to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, 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 the European Automobile Manufacturers' Association ("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 ("g/km") for the average of new cars sold in the EU by the ACEA's members in 2008. It is presumed that the industry has not achieved the 140 g/km target due to a number of factors, including consumer demand and the challenges associated with implementing various fuel-saving technologies.

In December 2008, the EU approved a regulation of passenger car carbon dioxide beginning in 2012 which limits the industry fleet average to a maximum of 130 g/km, using a sliding scale based on vehicle weight. This regulation provides different targets for each manufacturer based on its respective fleet of vehicles according to vehicle weight and carbon dioxide output. Limited credits are available for CO2 off-cycle actions ("eco-innovations"), certain alternative fuels, and vehicles with CO2 emissions below 50 g/km. For manufacturers failing to meet targets, a penalty system will apply with fees ranging from €3 to €95 per each g/km shortfall in the years 2012-18, and €95 for each g/km shortfall for 2019. Manufacturers would be permitted to use a pooling agreement between wholly-owned brands to share the burden. Further pooling agreements between different manufacturers are also possible, although it is not clear that they will be of much practical benefit under the regulations. For 2020, an industry target of 95 g/km has been set. This target will be further detailed in a review in 2013.

In separate legislation, so-called "complementary measures" are expected. These may include, for example, tire-related requirements, and requirements related to gearshift indicators, fuel economy indicators, and more efficient low-CO2 mobile air conditioning systems. These proposals are likely to be finalized in 2009-10. The European Commission has indicated that possible targets for commercial light duty vehicles may be around 160 g/km to 175 g/km, with specific legislative proposals expected this year.

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ITEM 1. Business (continued)

Some European countries have implemented or are still considering other initiatives for reducing carbon dioxide emissions from motor vehicles, including fiscal measures. For example, the United Kingdom introduced a vehicle excise duty and company car taxation based on carbon dioxide emissions in 2001, and other member states such as France, Portugal and Germany have adopted or announced their intention to adopt carbon dioxide-based taxes for passenger cars. The EU CO2 requirements are likely to trigger further measures.

Other National Requirements. Some Asian countries (such as China, Japan, South Korea, and Taiwan) also have adopted fuel efficiency targets. For example, Japan has fuel efficiency targets for 2015 which are even more stringent than the 2010 targets, with incentives for early adoption. China implemented second-stage fuel economy targets from 2008, and is working on the third stage for 2012 phase-in. All of these fuel efficiency targets will impact the cost of technology of our models in the future.

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 the growth in 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 Canadian federal government has issued the Motor Vehicle Fuel Consumption Standards Act, which calls for new fuel economy standards beginning with the 2011 model year. The standards are likely to track the new CAFE standards in the United States, although it is possible that Canada may consider increasing the stringency of the standards based on the fleet mix in Canada. Several provinces, including British Columbia, Quebec, Manitoba, and Prince Edward Island, have publicly announced their intention to impose greenhouse gas standards at the provincial level, likely modeled after California's AB 1493 standards. Such regulations are likely to go into effect if California receives a waiver of preemption in the United States.

Chemical Regulation

U.S. Requirements. Several states are considering moving beyond a substance-by-substance approach to managing substances of concern, and are moving towards adopting green chemistry legislation that give state governments broad regulatory authority to determine, prioritize, and manage toxic substances. In 2008, California became the first state to enact a broad Green Chemistry Program, which will commence regulations in 2011. This new law may impose new vehicle end-of-life responsibilities on vehicle manufacturers, and restrict, ban, or require labeling of certain substances. This broad authority to regulate substances could require changes in product chemistry, and greater complication of fleet mix.

European Requirements. The European Commission has implemented its regulatory framework for a single system to register, evaluate, and authorize the use of chemicals with a production volume above one ton per year ("REACH"). The rules took effect on June 1, 2007, with a preparatory period through June 1, 2008 followed by a six-month pre-registration phase. 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-driven" to "REACH-driven" activities. We and our suppliers have pre-registered those chemicals that were identified to fall within this requirement. The regulation also will 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. We are implementing and ensuring compliance within Ford and our suppliers through a common strategy together with the global automotive industry.

Pollution Control Costs

During the period 2009 through 2013, we expect to spend approximately $237 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 $44 million in 2009 and $48 million in 2010. These amounts exclude projections for Jaguar Land Rover operations, which were sold as of June 2, 2008. Specific environmental expenses are difficult to isolate because expenditures may be made for more than one purpose, making precise classification difficult.

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, 2008 and 2007 was as follows (in thousands):

	2008	2007
Automotive		
Ford North America	79	94
Ford South America	15	14
Ford Europe	70	68
Volvo	24	26
Ford Asia Pacific Africa	15	17
Jaguar Land Rover*	–	16
Financial Services		
Ford Credit	10	11
Total	213	246

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* As reported in our Quarterly Report on Form 10-Q for the period ended June 30, 2008, we completed the sale of Jaguar Land Rover operations on June 2, 2008.

The year-over-year decrease in employment levels primarily reflects the sale of Jaguar Land Rover operations during 2008, as well as our implementation of personnel-reduction programs in Ford North America.

Substantially all of the hourly employees in our Automotive operations are represented by unions and covered by collective bargaining agreements. In the United States, 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 Auto 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.

We have entered into collective bargaining agreements with the UAW, and the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW"). Among other things, our agreements with the UAW and CAW provide for guaranteed wage and benefit levels throughout the term of the respective agreements, and provide for significant employment security, subject to certain conditions. As a practical matter, these agreements may restrict our ability to close plants and divest businesses during the terms of the agreements. Our agreements with the UAW and CAW expire on September 14, 2011.

In 2008, we negotiated new Ford collective bargaining agreements with labor unions in Argentina, Brazil, France, Mexico, New Zealand, Romania, Russia, Taiwan, and Thailand. We also negotiated a collective bargaining agreement at our Volvo (U.S.) affiliate. Britain and Germany began negotiations in the fourth quarter of 2008 which are expected to be completed in 2009.

Additionally, in 2009 we are or will be negotiating new collective bargaining agreements with labor unions in Australia, Belgium, Brazil, France, Mexico, New Zealand, Russia, Spain, Taiwan and Thailand.

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, 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: $7.3 billion (2008), $7.5 billion (2007), and $7.2 billion (2006). 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 or worsening financial crisis. The global economy is currently facing a financial crisis and severe recession, which has led to significant pressure on Ford and the automotive industry generally. As previously disclosed in our business plan submission to Congress in December 2008 (filed as an exhibit to our Current Report on Form 8-K dated December 1, 2008), in this environment a number of scenarios could put severe pressure on our short- and long-term Automotive liquidity, including most importantly: (i) a significant industry event (such as the uncontrolled bankruptcy of a major competitor or major suppliers) that causes a major disruption to our supply base or dealers, or (ii) economic decline greater than presently forecast that causes industry sales volume to decline to levels significantly below our current planning assumptions (i.e., for 2009, 10.5 million to 12.5 million units in the United States, and 12.5 million to 13.5 million units for the 19 markets we track in Europe (each including heavy and medium trucks)).

In such an event, or in response to other unanticipated circumstances, we could require additional financing. Because the global capital and credit markets have been severely constrained, we may not be able to obtain such financing other than through government assistance. Although the U.S. Department of Treasury has outlined an Automotive Industry Financing Program designed to prevent significant disruption of the American auto industry, we may be deemed ineligible for funding under that program or any other government funding program and, even if we did meet eligibility requirements, funding availability may be exhausted by then. Even if we are able to obtain such financing, the government likely would impose significant restrictions on us that could adversely affect our ability to operate efficiently or effectively. Inability to obtain additional financing in these circumstances would have a material adverse effect on our financial condition and results of operations.

A prolonged disruption of the debt and securitization markets. As a result of the global credit crisis, the disruption in the debt and securitization markets that began in August 2007 increased significantly in September 2008 and is continuing. The government-sponsored programs that are intended to improve conditions in the credit markets (e.g., the Commercial Paper Funding Facility, Ford Credit's participation in which is described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources") may not be successful in the near term. Moreover, it is possible that the disruption could continue beyond the conclusion of the government-sponsored programs. The government has announced additional programs, including the Federal Reserve's Term Asset-Backed Securities Loan Facility, but these facilities have not yet become operational, and may not provide sufficient assistance to fully reopen the securitization markets. Due to the present global credit crisis and Ford Credit's limited access to public and private securitization markets, we expect the majority of Ford Credit's funding in 2009 will consist of eligible issuances pursuant to government-sponsored programs. If these programs are not available or workable and the disruption in the debt and securitization markets continues, this would result in Ford Credit further reducing the amount of receivables it purchases or originates. A significant reduction in the amount of receivables Ford Credit purchases or originates would significantly reduce its ongoing profits, and could adversely affect its ability to support the sale of Ford vehicles. To the extent Ford Credit's ability to provide wholesale financing to our dealers or retail financing to those dealers' customers is limited, Ford's ability to sell vehicles would be adversely affected.

ITEM 1A. Risk Factors (continued)

Further declines in industry sales volume, particularly in the United States or Europe, due to financial crisis, deepening recession, geo-political events, or other factors. The global automotive industry is estimated to have shrunk to 68 million units in 2008, a year-over-year decline of about 3.5 million units. In particular, industry sales volume in the United States and in the 19 European markets that we track declined suddenly and substantially in 2008 and continued at historically low levels into 2009. For full-year 2008, industry demand for cars and trucks in the United States fell to 13.5 million units, compared with 16.5 million units in 2007, and in the 19 European markets we track fell to 16.6 million units, compared with 18.1 million units in 2007. These declines occurred primarily in the second half of 2008, with a seasonally adjusted annual selling rate in the fourth quarter of 2008 of 10.7 million units and 14.8 million units in the United States and Europe, respectively. The decline in sales volume in the United States during 2008 was the biggest year-over-year decline since the 1980 recession. These sudden and substantial declines in sales volumes have contributed to unprecedented Automotive gross cash outflow ($21.2 billion) and total Company net loss ($14.7 billion) in 2008.

As discussed under the captions "Overview" and "Outlook" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," we forecast year-over-year industry sales volume declines in many markets around the world during 2009 as a result of the ongoing global economic recession. Because we, like other manufacturers, have a high proportion of fixed costs, relatively small changes in industry sales volume can have a substantial effect on our cash flow and overall profitability. If industry vehicle sales were to decline significantly from our current assumptions, particularly in the United States and Europe, our financial condition and results of operations would 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."

Decline in market share. Our overall market share in the United States has declined in recent years, from 18% in 2004 to 14.2% in 2008. Market share declines and resulting volume reductions in any of our major markets could have an adverse impact on our financial condition and results of operations. Although 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. Additional decline in market share could have a substantial adverse effect on our financial condition and results of operations.

Continued or increased price competition resulting from industry overcapacity, currency fluctuations, or other factors. The global automotive industry is intensely competitive, with manufacturing capacity far exceeding current demand. According to CSM Worldwide's January 2009 report, the global automotive industry is estimated to have had excess capacity of 24 million units in 2008. Industry overcapacity has resulted in many manufacturers offering marketing incentives on vehicles in an attempt to maintain and grow market share. These marketing incentives have included a combination of subsidized financing or leasing programs, price rebates, and other incentives. As a result, we are not necessarily able to set our prices to offset higher costs of marketing incentives or other cost increases or the impact of adverse currency fluctuations in either the U.S. or European markets. While we, General Motors and Chrysler each have announced plans to reduce capacity significantly, successful reductions will require the cooperation of organized labor, will take several years to complete, and only partially address the industry's overcapacity problems, particularly as industry sales volume decreased dramatically in the final months of 2008. A continuation or increase in these trends likely would have a substantial adverse effect on our financial condition and results of operations.

A further increase in or acceleration of market shift away from sales of trucks, SUVs, or other more profitable vehicles, particularly in the United States. Trucks and SUVs historically have represented some of our most profitable vehicle segments, and the segments in which we have had our highest market share. In recent years, the general shift in consumer preferences away from medium- and large-sized SUVs and trucks has adversely affected our overall market share and profitability. A continuation or acceleration of this general shift in consumer preferences away from SUVs and trucks, or a similar shift in consumer preferences away from other more profitable vehicle sales, whether because of fuel prices, declines in the construction industry, governmental actions or incentives, or other reasons, could have a substantial adverse effect on our financial condition and results of operations.

A return to elevated gasoline prices, as well as the potential for volatile prices or reduced availability. A return to elevated gas prices, as well as the potential for volatility in gas prices or reduced availability of fuel, particularly in the United States, could result in further weakening of demand for relatively more profitable large and luxury car and truck models, and could increase demand for relatively less profitable small cars and trucks. Continuation or acceleration of such a trend could have a substantial adverse effect on our financial condition and results of operations.

ITEM 1A. Risk Factors (continued)

Lower-than-anticipated market acceptance of new or existing products. Although we conduct extensive market research before launching new or refreshed vehicles, many factors both within and outside of our control affect the success of new or existing products in the marketplace. Offering highly desirable vehicles can mitigate the risks of increasing price competition and declining demand, but vehicles that are perceived to be less desirable (whether in terms of price, quality, styling, safety, overall value, fuel efficiency, or other attributes) 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.

Fluctuations in foreign currency exchange rates, commodity prices, and interest rates. 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. Further, the global credit crisis and deterioration of our credit ratings have significantly reduced our ability to obtain derivatives to manage risks. As a result, substantial unfavorable changes in foreign currency exchange rates, commodity prices or interest rates could have a substantial adverse effect on our financial condition and results of operations. For additional discussion of currency, commodity price and interest rate risks, see "Item 7A. Quantitative and Qualitative Disclosures about Market Risk."

Adverse effects from the bankruptcy, insolvency, or government-funded restructuring of, change in ownership or control of, or alliances entered into by a major competitor. We and certain of our competitors have substantial "legacy" costs (principally related to employee benefits), as well as a substantial amount of debt, that put each of us at a competitive disadvantage to other competitors manufacturing in the United States. The bankruptcy, insolvency, or government-funded restructuring of such a competitor could result in that competitor gaining a significant cost or pricing advantage (by eliminating or reducing contractual obligations to unions or other parties), thereby leaving us at a competitive disadvantage, which could have a substantial adverse effect on our financial condition and results of operations. Similarly, we could be adversely affected if one of our competitors were acquired by, or entered into an alliance with, a stronger competitor.

In particular, two of our competitors with substantial legacy costs and debt, General Motors and Chrysler, currently are engaged in discussions concerning U.S. government-funded restructurings that, if successful, would reduce their legacy costs, align their employee benefit costs with those of other competitors, and substantially reduce their debt. For example, the government proposal for restructuring would require that a significant portion of our competitors' debt and post-retirement benefit obligations be converted into equity. While we do not anticipate entering into a government-funded restructuring, we are pursuing similar restructuring actions to remain competitive. We cannot guarantee that we will be successful in achieving these actions and, even if we were successful, the results could be dilutive to our shareholders.

Restriction on Use of Tax Attributes from Tax Law "Ownership Change." Section 382 of the U.S. Internal Revenue Code restricts the ability of a corporation that undergoes an ownership change to use its tax attributes, such as net operating losses and tax credits. An ownership change occurs if 5% shareholders of an issuer's outstanding common stock, collectively, increase their ownership percentage by more than fifty percentage points within any three-year period. As discussed above, we are pursuing further restructuring actions to remain competitive with General Motors and Chrysler, which are undergoing U.S. government-funded restructurings that, if successful, would reduce their legacy costs, align their employee benefit costs with those of other competitors, and substantially reduce their debt. New shares of stock that we issue in connection with any restructuring actions we might take, could contribute to such an ownership change under U.S. tax law. Moreover, not every event that could contribute to such an ownership change is within our control. If a tax law ownership change were to occur, we would be at risk of having to pay cash taxes notwithstanding the existence of sizeable tax attributes. For discussion of our financial statement treatment of deferred tax assets, including deferred tax assets related to these tax attributes, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates" and Note 19 of the Notes to the Financial Statements.

ITEM 1A. Risk Factors (continued)

Economic distress of suppliers that may require us to provide substantial financial support or take other measures to ensure supplies of components or materials and could increase our costs, affect our liquidity, or cause production disruptions. Our industry is highly interdependent, with broad overlap of supplier and dealer networks among manufacturers, such that the uncontrolled bankruptcy or insolvency of a major competitor or major suppliers could threaten our supplier or dealer network and thus pose a threat to us as well.

Even in the absence of such an event, our supply base has experienced increased economic distress due to the sudden and substantial drop in industry sales volumes affecting all manufacturers. Dramatically lower industry sales volume has made existing debt obligations and fixed cost levels difficult for many suppliers to manage, especially with the tight credit markets.

These factors have increased pressure on the supply base, and, as a result, suppliers not only have been less willing to reduce prices, but some have requested direct or indirect price increases, as well as new and shorter payment terms. Suppliers also are exiting certain lines of business or closing facilities, which results in additional costs associated with transitioning to new suppliers and which may cause supply disruptions that could interfere with our production during any such transitional period. In addition, in the past 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 23 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.

Single-source supply of components or materials. Many components used in our vehicles are available only from a single supplier and cannot be quickly or inexpensively re-sourced to another supplier due to long lead times and new contractual commitments that may be required by another supplier in order to provide the components 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.

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. We negotiated a new agreement with the UAW in 2007 and with the CAW in 2008, each of which expires in September 2011. These agreements provide for guaranteed wage and benefit levels throughout their terms and significant employment security, subject to certain conditions. As a practical matter, these agreements restrict our ability to close plants and divest businesses during the terms of the agreements. These and other provisions within the UAW and CAW agreements may impede our ability to restructure our business successfully to compete more effectively in today's global marketplace.

Work stoppages at Ford or supplier facilities or other interruptions of supplies. A work stoppage could occur at Ford or supplier facilities, as a result of disputes under existing collective bargaining agreements with labor unions, in connection with negotiations of new collective bargaining agreements, as a result of supplier financial distress, or for other reasons. For example, many suppliers are experiencing financial distress due to decreasing production volume and increasing prices for raw materials, jeopardizing their ability to produce parts for us. A work stoppage related to collective bargaining agreements or other reasons, at Ford or its suppliers, or an interruption or shortage of supplies for any other reason (including but not limited to financial distress, natural disaster, or production difficulties affecting a supplier) could substantially adversely affect our financial condition and results of operations.

Substantial pension and postretirement health care and life insurance liabilities impairing our liquidity or financial condition. We have two principal qualified defined benefit retirement plans in the United States. The Ford-UAW Retirement Plan covers hourly employees represented by the UAW, and the General Retirement Plan covers substantially all other Ford employees in the United States hired on or before December 31, 2003. The hourly plan provides noncontributory benefits related to employee service. The salaried plan provides similar noncontributory benefits and contributory benefits related to pay and service. In addition, we and certain of our subsidiaries sponsor plans to provide other postretirement benefits for retired employees, primarily health care and life insurance benefits. See Note 23 of the Notes to the Financial Statements for more information about these plans, including funded status. These benefit plans impose significant liabilities on us which are not fully funded and will require additional cash contributions by us, which could impair our liquidity.

ITEM 1A. Risk Factors (continued)

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 such circumstance 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 would terminate any of our plans, in the event that our U.S. pension plans were 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.

If our cash flows and capital resources were insufficient to fund our pension or postretirement health care 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 insufficient to meet our pension or postretirement health care 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 health care 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 and postretirement health care or life insurance obligations then due.

Inability to implement the Retiree Health Care Settlement Agreement to fund and discharge UAW hourly retiree health care obligations. We received the necessary approvals in the third quarter of 2008 to begin implementing our Retiree Health Care Settlement Agreement ("Settlement") to fund and discharge our obligations related to UAW hourly retiree health care through a new, external Voluntary Employee Benefit Association Trust ("VEBA"). See Note 23 of the Notes to the Financial Statements for additional discussion of the Settlement.

As discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview," we have reached a tentative agreement with the UAW allowing us, at our option, to convert a portion of our obligations to the VEBA from a cash obligation to an equity obligation. This tentative agreement is subject to various conditions, including ratification by active Ford UAW-represented hourly employees, court approval of the modification to the Settlement, approval by the U.S. Securities and Exchange Commission of accounting treatment acceptable to us, and receipt of a prohibited transaction exemption from the U.S. Department of Labor. A significant delay or a materially adverse result relating to any of these conditions that results in our inability to implement, or a delay in implementation of, the modification to the Settlement or the Settlement itself would adversely impact our financial condition and results of operations.

Worse-than-assumed economic and demographic experience for our postretirement benefit plans (e.g., discount rates or investment returns). 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, and demographic experience (e.g., mortality and retirement rates). To the extent 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 our 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, or increased warranty costs. Meeting or exceeding many government-mandated safety standards is costly and often technologically challenging, 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, fuel economy, or other 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, for example, governmental regulation has arisen primarily out of concern for the environment, greater vehicle safety, and a desire for improved fuel economy. For discussion of the impact of such standards on our global business, see "Item 1. Governmental Standards." As a result of the change in Administration and increased public focus on climate change, U.S. government regulation has increased recently and this trend may continue. In its early days, for example, the Obama Administration announced that it would revisit the decision of the Environmental Protection Agency to deny a waiver that is necessary to permit California and other states to regulate fuel economy through greenhouse gas regulations. If those states are permitted to impose such regulations, we would see a dramatic increase in the costs and complexity of our business over time and a decrease in our ability to sell certain vehicles, particularly highly profitable trucks and SUVs, in many jurisdictions, all of which would have an adverse affect on our financial condition and results of operations. In addition, many governments also 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, and the requirements could have a substantial adverse impact on our financial condition and results of operations.

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. Compliance with governmental standards, however, 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 results from a decrease in or cessation of government incentives. We receive economic benefits from national, state, and local governments related to investments we make. These benefits generally take the form of tax incentives, property tax abatements, infrastructure development, subsidized training programs, and/or other operational grants and incentives, and the amounts may be significant. A decrease in, expiration without renewal of, or other cessation of such benefits could have a substantial adverse impact on our financial condition and results of operations, as well as our ability to fund new investments.

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: governmental takeover (i.e., nationalization) of our manufacturing facilities; disruption of operations in a particular country as a result of political or economic instability, outbreak of war or 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 past year we experienced substantial negative operating-related cash flows, and we expect that trend to continue, at a reduced rate, for the near-term. As a result of the global financial crisis, we may not be able to obtain future liquidity in amounts sufficient to enable us to pay our indebtedness and to fund our other liquidity needs. In addition, if we are unable to meet certain covenants of our $11.5 billion secured credit facility established in December 2006 (e.g., if the borrowing base value of assets pledged does not exceed outstanding borrowings), we may be required to repay borrowings under the facility prior to their maturity in December 2011 (for revolver borrowings) and December 2013 (for term loan borrowings).

ITEM 1A. Risk Factors (continued)

If our cash flow is worse than expected due to worsening of the economic recession, work stoppages, supply base disruptions, increased pension contributions, or other reasons, or if we are unable to find additional liquidity sources 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, including our secured credit agreement, see the discussion under the captions "Liquidity and Capital Resources" and "Outlook" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 16 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 December 2006 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 16 of the Notes to the Financial Statements for additional information regarding our indebtedness.

Failure of financial institutions to fulfill commitments under committed credit facilities. As discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," when we borrowed the full amount available under our $11.5 billion revolving credit facility in February 2009, the $890 million commitment of Lehman Commercial Paper Inc. ("LCPI") was not fully funded as a result of LCPI having filed for protection under Chapter 11 of the U.S. Bankruptcy Code in October 2008. To the extent we repay amounts under our revolving credit facility, we can re-borrow those amounts. If the financial institutions that provide these or other committed credit facilities were to default on their obligation to fund the commitments, these facilities would not be available to us, which could substantially adversely affect our liquidity and financial condition.

Ford Credit's need for substantial liquidity to finance its business. Ford Credit requires substantial liquidity to finance its operations on a profitable basis. If Ford Credit is unable to obtain such liquidity, it would need to curtail its operations, which include providing credit to our dealers and to retail customers to purchase our cars. This would adversely affect our automotive operations. As a result of the financial crisis and the global recession, which has reduced automotive sales, Ford Credit's access to liquidity has become more constrained. Ford Credit is taking a number of steps, as outlined below, to ensure continued access to liquidity but these steps involve a number of risks.

Inability of Ford Credit to obtain an industrial bank charter or otherwise obtain competitive funding. Ford Credit is pursuing an industrial bank charter from the State of Utah. Such a charter requires approval from the Federal Deposit Insurance Corporation ("FDIC") to obtain federal deposit insurance, and we cannot assure that Ford Credit will obtain such approval. Other institutions that provide automotive financing have access to relatively low-cost FDIC-insured funding. Access by these competitors to FDIC-insured or other government funding programs that are not available to Ford Credit could adversely affect Ford Credit's ability to support the sale of Ford vehicles at competitive rates. This in turn would adversely affect the marketability of Ford vehicles in comparison to certain competitive brands.

Inability of Ford Credit to access debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts due to additional credit rating downgrades, market volatility, market disruption, or other factors. The lower credit ratings assigned to Ford Credit, as well as the continued financial crisis, have increased its unsecured borrowing costs and have caused its access to the unsecured debt markets to be more restricted. In response, Ford Credit has increased its use of securitization and other sources of liquidity. Ford Credit's ability to obtain funding under its committed asset-backed liquidity programs and certain other asset-backed securitizations is subject to having a sufficient amount of assets eligible for these programs as well as Ford Credit's ability to obtain appropriate credit ratings and derivatives to manage the interest rate risk. Over time, and particularly in the event of any further credit rating downgrades, market volatility, market disruption, or other factors, 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 its ongoing profits and could adversely affect its ability to support the sale of Ford vehicles.

ITEM 1A. Risk Factors (continued)

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 and adversely affect its financial condition and results of operations. 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 standardized systems, 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 may face 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.

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. Actual return volumes may be higher than expected and can be influenced by contractual lease end values relative to auction values, marketing programs for new vehicles, and general economic conditions. All of these factors, alone or in combination, have the potential to adversely affect Ford Credit's profitability.

For example, in the second quarter of 2008, higher fuel prices and the weak economic environment in North America resulted in a pronounced shift in consumer preferences from full-size trucks and traditional SUVs to smaller, more fuel-efficient vehicles. This shift in consumer preferences caused a significant reduction in auction values. This in turn resulted in Ford Credit recording a pre-tax impairment charge of $2.1 billion, representing the amount by which the carrying value of certain vehicle lines in its lease portfolio exceeded their fair value. For additional discussion of residual values, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates."

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 1A. Risk Factors (continued)

Inability to implement our plans to further reduce structural costs and increase liquidity. As discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview," we are taking a number of additional actions in executing the four priorities of our plan in order to address the impact of current economic conditions, including the deteriorating credit market and automotive sales. To the extent that we are unable to implement these additional actions or implement other alternative actions our financial condition and results of operations would be substantially adversely affected.

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 or other obligations. 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 44% 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 97% 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	41*	32	31	55
Ford South America	7	1	–	8
Ford Europe	19	9	6	14
Volvo	9	9	2	8
Ford Asia Pacific Africa	12	6	2	19
Total	88	57	41	104

* We have announced plans to close a number of North American facilities as part of our restructuring actions; facilities that have been closed to date are not included in the table. For further discussion of our restructuring, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview." The table includes six facilities operated by Automotive Components Holdings, LLC ("ACH"), which is controlled by us. We had been working to sell or close the majority of the 15 ACH component manufacturing plants by year-end 2008. To date, we have sold five ACH plants and closed another four. We plan to close a fifth during 2009, and a sixth in 2011. We are exploring our options for the remaining ACH plants (Milan, Sheldon Road, Saline and Sandusky), and intend to transition these businesses to the supply base as soon as practicable.

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 significant consolidated joint ventures and the number of plants they own:

- AutoAlliance International, Inc. ("AAI") — a 50/50 joint venture with Mazda (of which we own approximately 13.78%), 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 Otomotiv Sanayi Anonim Sirketi ("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, a parts distribution depot, and a newly opened Product Development Center in Turkey.

- Getrag Ford Transmissions GmbH ("Getrag Ford") — 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, including plants, from Halewood, England; Cologne, Germany; and Bordeaux, France. In 2004, Volvo Car Corporation ("Volvo Cars") transferred its manual transmission business from its Köping, Sweden plant to Getrag Ford. In 2008, we added the Kechnec plant in Slovakia. Getrag Ford produces manual transmissions for Ford Europe and Volvo. We currently supply most of the hourly and salaried labor requirements of the operations transferred to this joint venture. Our employees who worked at the manual transmission operations transferred at the time of formation of the joint venture are assigned to the joint venture. In the event of surplus labor at the joint venture, our employees assigned to Getrag Ford may return to Ford. Employees hired in the future to work in these operations will be employed directly by Getrag Ford. Getrag Ford reimburses us for the full cost of the hourly and salaried labor we supply. This joint venture now operates four plants.

- Getrag All Wheel Drive AB — a joint venture in Sweden between Getrag Dana Holding GmbH (60% partner) and Volvo Cars (40% partner). In January 2004, Volvo Cars transferred to this joint venture its All Wheel Drive business and its plant in Koping, 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. 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 us and remain our 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 us for the full cost of our 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. In addition to domestic assembly, FLH also has local product development capability to modify vehicle designs for local needs, and imports Ford-brand built-up vehicles from Europe and the United States. This joint venture operates one plant.

ITEM 2. Properties (continued)

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) Co. Ltd. ("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. AAT has announced plans to build a new, highly flexible passenger car plant that will utilize state-of-the-art manufacturing technologies and will produce both Ford and Mazda badged small cars beginning in 2009.

- Blue Diamond Truck, S. de R.L. de C.V. ("Blue Diamond Truck") — a joint venture between Ford (49% partner) and Navistar International Corporation (formerly known as International Truck and Engine Corporation) (51% partner) ("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. By agreement of the parties in January 2009, the joint venture will continue and, among other things, over the next several months, Navistar will acquire additional equity in the joint venture such that Navistar's percentage interest in the joint venture will be 75% and Ford's interest will be 25%.

- Tenedora Nemak, S.A. de C.V. — a joint venture between Ford (6.75% partner) and a subsidiary of Mexican conglomerate Alfa S.A. de C.V. (93.25% partner), which owns and operates, among other facilities, a portion of 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 plant, for which it is fully reimbursed by the joint venture.

- Changan Ford Mazda Automobile Corporation, Ltd. ("CFMA") — a joint venture among Ford (35% partner), Mazda (15% partner), and the Chongqing Changan Automobile Co., Ltd. ("Changan") (50% partner). Through its facility in the Chinese cities of Chongqing and Nanjing, CFMA produces and distributes in China the Ford Mondeo, Focus, S-max and Fiesta, the Mazda2, the Mazda3 and the Volvo S40.

- Changan Ford Mazda Engine Company, Ltd. ("CFME") — a joint venture among Ford (25% partner), Mazda (25% partner), and the Chongqing Changan Automobile Co., Ltd (50% partner). CFME is located in the City of Nanjing, and produces 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.

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.

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

ITEM 3. Legal Proceedings

Various legal actions, governmental investigations, 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: 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, and some involve claims for 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 legal proceedings. 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 also have accrued expenses for other legal proceedings 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 from the early 1900s. Along with other vehicle manufacturers, we have been the target of asbestos litigation and, as a result, are a defendant in various actions for injuries claimed to have resulted from alleged exposure to 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. We believe that we are being more aggressively targeted in asbestos suits because many previously targeted companies have filed for bankruptcy.

Most of the asbestos litigation we face involves individuals who worked on the brakes of our vehicles over the years. We are prepared to defend these cases, and believe that the scientific evidence confirms our long-standing position that there is no 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). Annual payout and defense costs 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) are or 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 significant. The contingent losses that we expect to incur in connection with many of these sites have been accrued and those accruals are reflected in our financial statements. For many sites, however, the remediation costs and other damages for which we ultimately may be responsible are not reasonably estimable because of uncertainties with respect to factors such as our connection to the site or to materials there, the involvement of other potentially responsible parties, the application of laws and other standards or regulations, site conditions, and the nature and scope of investigations, studies, and remediation to be undertaken (including the technologies to be required and the extent, duration, and success of remediation). As a result, we are unable to determine or reasonably estimate the amount of costs or other damages for which we are potentially responsible in connection with these sites, although that total could be significant.

ITEM 3. Legal Proceedings (continued)

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. Pursuant to the Administrative Consent Order, in January 2008 we paid approximately $460,000 for oversight costs, penalties, and environmental education projects, and donated emissions reduction credits to the State of New Jersey. After receiving our payment, the DEP determined that the Consent Order could not be finalized unless it first was submitted for public comment. It provided public notice regarding the settlement in April 2008. We expect that after completing its review of the comments, the DEP will finalize the Consent Order without any material changes. As previously reported, the New Jersey Attorney General's office also issued a grand jury subpoena and civil information request in March 2006. We are fully cooperating with the Attorney General's office to resolve this matter.

California Environmental Action. In September 2006, the California Attorney General filed a complaint in the U.S. District Court for the Northern District of California against Ford, General Motors, Toyota, Honda, Chrysler and Nissan, seeking monetary damages on a joint and several basis for economic and environmental harm to California caused by global warming. The complaint alleged that cars and trucks sold in the United States constitute an environmental public nuisance under federal and California state common law. In September 2007, the U.S. District Court for the Northern District of California dismissed the case, ruling that the federal claims constituted nonjusticiable political questions. The Court did not address the state claims, and indicated that California could refile those claims in state court if desired. The California Attorney General has appealed the dismissal to the U.S. Court of Appeals for the Ninth Circuit.

Sterling Axle Plant. The Michigan Department of Environmental Quality ("MDEQ") issued four Letters of Violation to the Sterling Axle Plant between April 17, 2008 and October 7, 2008, and has commenced a civil administrative enforcement proceeding against the Company. The Letters of Violation arise from the plant's disclosure of several potential violations of its air permits. We are working with the MDEQ to resolve the enforcement proceeding, and the plant has taken steps to correct and prevent recurrence of the potential violations.

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 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.

Canadian Export Antitrust Class Actions. Eighty-three purported class actions on behalf of all purchasers of new motor vehicles in the United States since January 1, 2001 have been filed in various state and federal courts against numerous defendants, including Ford, General Motors, Chrysler, Toyota, Honda, Nissan, BMW Group, the National Automobile Dealers Association, and the Canadian Automobile Dealers Association. The federal and state complaints allege, among other things, that the manufacturers, aided by the dealer associations, conspired to prevent the sale to U.S. citizens of vehicles produced for the Canadian market and sold by dealers in Canada at lower prices than vehicles sold in the United States. The complaints seek injunctive relief under federal antitrust law and treble damages under federal and state antitrust laws. The federal court actions have been consolidated for coordinated pretrial proceedings in the U.S. District Court for the District of Maine.

TAX MATTERS

Government Transfer Pricing Dispute. As discussed in Note 19 of the Notes to the Financial Statements, the U.S. and Canadian governments will continue to have discussions in coming months to resolve issues involving transfer pricing. While these discussions are pending, we could receive audit adjustments from Canada that we would have to pay, either in cash or with collateral acceptable to the government. Any cash payments, which could be significant, would defease any tax liability ultimately determined.

ITEM 3. Legal Proceedings (continued)

OTHER MATTERS

ERISA Fiduciary Litigation. A purported class action lawsuit is pending in the U.S. 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 the Employee Retirement Income Security Act (“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. In December 2008, the Court denied Ford's motion to dismiss on the pleadings.

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 were one of several companies to receive requests for information as part of this inquiry. We completed submission of all information requested to date as of April 2007.

Diesel Engine Litigation. In 2007, we filed suit against Navistar International Corporation, formerly known as International Truck and Engine Corporation ("Navistar"), the supplier of diesel engines for our F-Series Super Duty and Econoline vehicles. Navistar countersued, and also initiated its own lawsuit. In January 2009, we reached agreement with Navistar to restructure our ongoing business relationship, and to settle all existing litigation between the companies. As part of the agreement, we made a cash payment to Navistar; Navistar will increase its equity ownership in our Blue Diamond Truck and Blue Diamond Parts joint ventures that will supply Ford with new medium-duty trucks and components; and the parties agreed to terminate effective December 31, 2009 their diesel engine supply agreement originally scheduled to expire in 2012, under which Navistar was required to be Ford's sole, exclusive source of diesel truck engines in North America.

Apartheid Litigation. Along with other prominent multinational companies, we are defendants in purported class action lawsuits seeking unspecified damages on behalf of South African citizens who suffered violence and oppression under South Africa's apartheid regime. The lawsuits allege that, by doing business in South Africa, the defendant companies “aided and abetted” the apartheid regime and its human rights violations. These cases, collectively referred to as In re South African Apartheid Litigation, were initially filed in 2002 and 2003, and are being handled together as coordinated "multidistrict litigation" in the U.S. District Court for the Southern District of New York. The District Court dismissed these cases in 2004, but in 2007 the U.S. Court of Appeals for the Second Circuit reversed and remanded the cases to the District Court for further proceedings. Amended complaints were filed during 2008.

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

Not required.

ITEM 4A. Executive Officers of Ford

Our executive officers and their positions and ages at February 1, 2009 are as follows:

Name	Position	Present Position Held Since	Age
William Clay Ford, Jr. (a)	Executive Chairman and Chairman of the Board	September 2006	51
Alan Mulally (b)	President and Chief Executive Officer	September 2006	63
Michael E. Bannister	Executive Vice President – Chairman and Chief Executive Officer, Ford Motor Credit Company	October 2007	59
Lewis W. K. Booth	Executive Vice President and Chief Financial Officer	November 2008	60
Mark Fields	Executive Vice President – President, The Americas	October 2005	48
John Fleming	Executive Vice President – Chairman, Ford Europe and Volvo	November 2008	58
John G. Parker	Executive Vice President – Asia Pacific Africa	September 2006	61
Tony Brown	Group Vice President – Purchasing	April 2008	52
Mei-Wei Cheng	Group Vice President – Executive Chairman, Ford Motor Company China	April 2008	58
Sue Cischke	Group Vice President – Sustainability, Environment and Safety Engineering	April 2008	54
James D. Farley	Group Vice President – Sales, Marketing and Communications	November 2007	46
Felicia Fields	Group Vice President – Human Resources and Corporate Services	April 2008	43
Bennie Fowler	Group Vice President – Quality	April 2008	52
Joseph R. Hinrichs	Group Vice President – Manufacturing	January 2008	42
Derrick M. Kuzak	Group Vice President – Product Development	December 2006	57
David G. Leitch	Group Vice President and General Counsel	April 2005	48
J C. Mays	Group Vice President – Design and Chief Creative Officer	August 2003	54

Ziad S. Ojakli	Group Vice President – Government and Community Relations	January 2004	41
Nick Smither	Group Vice President – Information Technology	April 2008	50
Peter J. Daniel	Senior Vice President and Controller	September 2006	61

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(a) Also a Director, Chair of the Office of the Chairman and Chief Executive, Chair of the Finance Committee and a member of the Sustainability 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.

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 November 2007, Mr. Farley was Group Vice President and General Manager of Lexus, responsible for all sales, marketing and customer satisfaction activities for Toyota's luxury brand. Before leading Lexus, he served as group vice president of Toyota Division marketing and was responsible for all Toyota Division market planning, advertising, merchandising, sales promotion, incentives and Internet activities.

- 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 D.C., where his practice focused on appellate litigation in state and federal court.

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 2007 and 2008:

	2007				2008			
Ford Common Stock price per share (a)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 8.97	$ 9.70	$ 9.64	$ 9.24	$ 6.94	$ 8.79	$ 6.33	$ 5.47
Low	7.43	7.67	7.49	6.65	4.95	4.46	4.17	1.01
Dividends per share of Ford Common and Class B Stock (b)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 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 secured credit facility which contains a covenant prohibiting us from paying 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 16 of the Notes to the Financial Statements for more information regarding the secured credit facility and related covenants.

As of February 13, 2009, stockholders of record of Ford included 164,005 holders of Common Stock (which number does not include 290 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 93 holders of Class B Stock.

During the fourth quarter of 2008, 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, 2008 through Oct. 31, 2008	98,811	$ 2.19	–	–
Nov. 1, 2008 through Nov. 30, 2008	9,165	1.80	–	–
Dec. 1, 2008 through Dec. 31, 2008	8,807	2.41	–	–

Total/Average	116,783	2.18	–	–

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* The shares purchased 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) payment of the exercise price and related income taxes with respect to certain exercises of stock options.

** No publicly announced repurchase program in place.

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).

	2008	2007	2006	2005	2004
SUMMARY OF OPERATIONS					
Total Company					
Sales and revenues	$ 146,277	$ 172,455	$ 160,065	$ 176,835	$ 172,255
Income/(Loss) before income taxes	$ (14,404)	$ (3,746)	$ (15,074)	$ 1,054	$ 4,087
Provision for/(Benefit from) income taxes	63	(1,294)	(2,655)	(855)	634
Minority interests in net income/(loss) of subsidiaries	214	312	210	280	282
Income/(Loss) from continuing operations	(14,681)	(2,764)	(12,629)	1,629	3,171
Income/(Loss) from discontinued operations	9	41	16	62	(133)
Cumulative effects of change in accounting principle	—	—	—	(251)	—
Net income/(loss)	$ (14,672)	$ (2,723)	$ (12,613)	$ 1,440	$ 3,038
Automotive Sector					
Sales	$ 129,166	$ 154,379	$ 143,249	$ 153,413	$ 147,058
Operating income/(loss)	(9,293)	(4,268)	(17,944)	(4,211)	(221)
Income/(Loss) before income taxes	(11,823)	(4,970)	(17,040)	(3,899)	(200)
Financial Services Sector					
Revenues	$ 17,111	$ 18,076	$ 16,816	$ 23,422	$ 25,197
Income/(Loss) before income taxes	(2,581)	1,224	1,966	4,953	4,287
Total Company Data Per Share of Common and Class B Stock					
Basic:					
Income/(Loss) from continuing operations	$ (6.46)	$ (1.40)	$ (6.73)	$ 0.88	$ 1.74
Income/(Loss) from discontinued operations	—	0.02	0.01	0.04	(0.08)
Cumulative effects of change in accounting principle	—	—	—	(0.14)	—
Net income/(loss)	$ (6.46)	$ (1.38)	$ (6.72)	$ 0.78	$ 1.66
Diluted:					
Income/(Loss) from continuing operations	$ (6.46)	$ (1.40)	$ (6.73)	$ 0.86	$ 1.59
Income/(Loss) from discontinued operations	—	0.02	0.01	0.03	(0.07)
Cumulative effects of change in accounting principle	—	—	—	(0.12)	—
Net income/(loss)	$ (6.46)	$ (1.38)	$ (6.72)	$ 0.77	$ 1.52
Cash dividends	$ —	$ —	$ 0.25	$ 0.40	$ 0.40
Common Stock price range (NYSE Composite Interday)					
High	$ 8.79	$ 9.70	$ 9.48	$ 14.75	$ 17.34
Low	1.01	6.65	6.06	7.57	12.61

Average number of shares of Ford Common and Class B Stock outstanding (in millions)		2,273		1,979		1,879		1,846		1,830
SECTOR BALANCE SHEET DATA AT YEAR-END										
Assets										
Automotive sector	$	73,845	$	118,489	$	122,634	$	113,825	$	113,251
Financial Services sector		151,667		169,261		169,691		162,194		189,188
Intersector elimination		(2,535)		(2,023)		(1,467)		(83)		(2,753)
Total assets	$	222,977	$	285,727	$	290,858	$	275,936	$	299,686
Total Debt										
Automotive sector	$	25,846	$	26,954	$	29,796	$	17,849	$	18,220
Financial Services sector		128,842		141,833		142,036		135,400		144,198
Intersector elimination *		(492)		—		—		—		—
Total debt	$	154,196	$	168,787	$	171,832	$	153,249	$	162,418
Stockholders' Equity	$	(17,311)	$	5,628	$	(3,465)	$	13,442	$	17,437

* Debt related to Ford's acquisition of Ford Credit debt securities. See Note 1 of the Notes to the Financial Statements for additional detail.

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) after they are produced and shipped or delivered 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 returned 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 to Ford Credit 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-rate vehicle financing and leasing programs that we sponsor. Ford Credit records these payments as revenue, and, for contracts purchased prior to 2008, our Automotive sector made the related cash payments, over the expected life of the related finance receivable or operating lease. Effective January 1, 2008, to reduce ongoing Automotive obligations to Ford Credit and to be consistent with general industry practice, we began paying interest supplements and residual value support to Ford Credit on an upfront, lump-sum basis at the time Ford Credit purchases eligible contracts from dealers. 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. The Automotive sector records the estimated costs of marketing incentives, including dealer and retail customer cash payments (e.g., rebates) and costs of special-rate 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

Global Economic and Financial Market Crisis. The global economy has entered a period of very weak economic growth, led by the recession in the United States and followed by declines in other major markets around the world. The financial market crisis set off a series of events that generated conditions more severe than those experienced in several decades. The characteristics of the financial crisis are unique, in part due to the complex structure of housing-related securities that were at the epicenter of the financial market turmoil. A steep housing correction, especially in the U.S. and U.K. markets, along with downward valuations of mortgage-backed and related securities, combined to foster a crisis in confidence. Although several other factors contributed to current economic and financial conditions, the influence of these financial developments was very prominent. The interrelationships among financial markets worldwide ultimately resulted in a synchronous global economic downturn, the effects of which became evident in the fourth quarter of 2008 as major markets around the world all suffered setbacks.

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

The economic outlook is negative, with a range of possible outcomes due to the uncertain financial market environment and ongoing policy responses. In 2009, global industry sales volume is projected to weaken, with a full-year decline in the range of 15% from 2008 levels. Consumer and business spending has been severely constrained by credit conditions and economic weakness. The effectiveness of prior and prospective policy actions to confront the crisis is not clearly apparent at this juncture; hence, the current outlook is particularly uncertain.

Excess Capacity. According to CSM Worldwide, an automotive research firm, in 2008 the estimated automotive industry global production capacity for light vehicles (about 90 million units) exceeded global production by about 24 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 44% and 23%, respectively, with North America in particular driven up from recent rates of around 20% due to the industry conditions in that market last year. According to production capacity data projected by CSM Worldwide, significant global excess capacity conditions could continue for several years at an average of 30.5 million units per year during the 2009-2011 period.

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 pricing pressure in the U.S. market. 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.

Consumer Spending and Credit. Limited ability to increase vehicle prices has been offset in recent years, at least in part, by the long-term trend toward purchase of higher-end, more expensive vehicles and/or vehicles with more features. The current retrenchment in consumer spending is likely to dampen that trend in the near-term, and, even consumers who are willing to spend often find that availability of automotive loans has been diminished as a result of the credit crisis. Over the long term, spending on new vehicles is expected to resume its correlation with growth in per capita incomes. Emerging markets also will contribute an increasing share of global industry sales volume and revenue, as growth in wholesales (i.e., volume) will be greatest in emerging markets in the next decade. We believe, however, the mature automotive markets (e.g., North America, Western Europe, and Japan) will retain the largest share of global revenue over the coming decade.

Health Care Expenses. In 2008, our health care expenses (excluding special items) for U.S. employees, retirees, and their dependents were $1.3 billion, with about $500 million for postretirement health care and the balance for active employee health care and other retiree expense.

For 2009, the initial health care cost trend rate for U.S. postretirement health care plans is 5%. The ultimate trend rate no longer applies beyond 2008, since we have capped our obligation for hourly and salaried retiree health care costs.

Commodity and Energy Price Increases. Commodity prices, particularly for steel and resins (our two largest commodity exposures and among the most difficult to hedge), have declined in recent months due to the downward trend in global demand. We expect this slight decrease to flow through to our results in the second half of 2009 as prevailing commodity costs are reflected in new supply contracts. Despite this cyclical reduction in commodity prices, a return to elevated prices, as well as the potential for volatility, is quite possible once global demand recovers. Higher fuel prices, combined with efforts to achieve environmental policy objectives, are likely to continue to generate demand for more fuel efficient vehicles.

Currency Exchange Rate Volatility. The ongoing deleveraging in financial markets has generated significant volatility in currencies as well. For example, the U.S. dollar has strengthened against the euro and significantly against the British pound, and weakened against the Japanese yen.

Other Economic Factors. Additional factors continue to affect the performance of the automotive industry. In the United States, declines in residential construction spending have continued, down 21% in 2008 after an 18% decline in the prior year (after inflation adjustment). This trend has had two effects on automotive sales and revenue – directly, through its adverse effect on GDP growth, and as a contributing factor to soft demand for truck sales. Both of these factors may continue to contribute to lower light vehicle sales in the United States this year. In addition, weaker travel demand and lack of financing have softened demand for new vehicles from rental fleet customers. The eventual implications of significant fiscal stimulus currently being enacted, including higher government deficits generating potentially higher long-term interest rates, could drive a higher cost of capital over our planning period.

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

Trends and Strategies

As indicated, we are in the midst of a global economic crisis that has included a sudden and substantial decline in global automotive industry sales volume. The dramatic decline in industry sales volume, combined with tight credit markets, other economic factors and trends described above, and the costs associated with transforming our business, have put significant pressure on our liquidity (as evidenced during 2008 by negative Automotive gross cash flow of $21.2 billion and total Company net loss of $14.7 billion).

While the economic environment worsens, we believe that our continued focus on executing these four pillars of our plan is the right strategy to achieve our objectives:

- Aggressively restructure to operate profitably at the current demand and changing model mix;
- Accelerate development of new products our customers want and value;
- Finance our plan and improve our balance sheet; and
- Work together effectively as one team, leveraging our global assets.

Despite the worsening external economic environment, we have made significant progress in transforming our business. As we continue to execute the four pillars of our plan, we have achieved key milestones for our Automotive sector as of year-end 2008 compared with 2005:

- Reduced hourly and salaried personnel levels in North America (including ACH) by more than 60,000 employees, with additional salaried personnel reductions of about 1,200 in January 2009;
- Negotiated transformational labor agreement with the UAW in 2007, including lower wage structure for new employees, flexible work rules, and transfer of long-term responsibility for retiree health care as described in more detail in our 2007 Form 10-K Report;
- Closed 12 manufacturing facilities in North America (including ACH facilities);
- Divested substantial non-core assets, including Aston Martin and Jaguar Land Rover operations, allowing us to further focus our resources on our "One Ford" vision;
- Sold a significant portion of our ownership in Mazda;
- Improved vehicle quality around the world, and undertaken plans to introduce our smaller, more fuel-efficient European vehicles to the North American market; and
- Exceeded our goal of reducing cumulative annual North America Automotive operating costs by more than $5 billion (at constant volume, mix and exchange, excluding special items).

As we execute our plan, we have stated that we are committed to taking necessary steps to continue to match our manufacturing capacity to demand. In keeping with that commitment, we are taking additional steps discussed below and in "Outlook," particularly in North America, to continue our aggressive restructuring and to finance our plan and improve our balance sheet. In addition, we have announced that we are re-evaluating strategic options for Volvo, including possible sale.

Aggressively Restructure to Operate Profitably

Manufacturing. Our U.S. manufacturing presence includes 10 vehicle assembly plants and 24 powertrain, stamping, and components plants. We are converting three of these assembly plants from production of large SUVs and trucks to small car production to support what we believe is a permanent shift in consumer preferences to smaller, more fuel-efficient vehicles. To this end, approximately 50% of future U.S. manufacturing capacity will be allocated to small- and medium-size vehicles. In addition, nearly all of our U.S. assembly plants will have flexible body shops by 2012 to enable quick response to changing consumer demands, and nearly half of our transmission and engine plants will be flexible, capable of manufacturing various combinations of transmission and engine families. In addition, we have announced plans to close two Ford and two ACH plants in the 2009–2011 period. We are exploring our options for the remaining ACH plants, and intend to transition these businesses to the supply base as soon as practicable.

Product Development. In combination with the business improvements being achieved, we expect our "One Ford" product development vision and process to deliver a broad range of highly acclaimed global vehicles, and, as announced, we plan to accelerate the development of new products designed to meet shifting consumer preferences for smaller, more fuel-efficient vehicles. With our “One Ford” product development vision, we are working to make all small- and medium-sized Ford vehicles competing in global segments common in North America, Europe and Asia by 2013. This will include Fiesta- and Focus-sized small cars, Fusion- and Mondeo-sized mid-size cars and utilities, and commercial vans. As an example of how commonality can work for us, the new Fiesta compact car that we introduced in Europe in 2008 also will be offered for sale in all major markets, including the United States, over the next few years.

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

Suppliers. We continue to work to strengthen our supply base in the United States, which represent 80% of our North American purchases. As part of this process, we have been reducing the total number of production suppliers eligible for major U.S. sourcing from 3,300 in 2004 to approximately 1,600 suppliers today, with a further reduction to 750 suppliers planned. We believe that our efforts at consolidation will result in more business for our major suppliers, which is increasingly important as industry sales volume declines. In addition, our move to global vehicle platforms should increase our ability to source to common suppliers for the total global volume of vehicle components, so that a smaller number of suppliers will receive a greater volume of the purchases we make to support our global vehicle platforms.

Dealers. Our dealers are a source of strength in North America and around the world, especially in rural areas and small towns where they represent the face of Ford. At our current and expected future market share, however, we have too many dealers, particularly in U.S. metropolitan areas, which makes it increasingly difficult to sustain a healthy and profitable dealer base. To address this overcapacity, we are working with our dealers in efforts to downsize, consolidate and restructure our Ford, Lincoln, and Mercury network in our largest 130 metropolitan market areas in the United States to provide targeted average-year sales for Ford dealers of more than 1,500 units and for Lincoln Mercury dealers of more than 600 units. This should result in sustainable dealer profits. As part of these efforts, the number of dealers in our Ford, Lincoln and Mercury network in the United States has been reduced from about 4,400 at the end of 2005 to about 3,800 at the end of 2008. These efforts, which include funding dealer consolidations to enhance our representation in the marketplace, will continue in the future to reduce further our dealer network to match our sales and dealer sales objectives.

Ford Credit. Ford Credit also is further restructuring its operations and improving its cost structure to reflect lower financing volumes resulting from lower automotive industry sales volumes, lower financing volumes resulting from the sale of Jaguar Land Rover operations, and its agreement with Mazda to discontinue providing financial services. These actions include forming new strategic alliances and partnerships, and reducing capital needs in international markets while continuing to streamline its operations globally. In the United States, Ford Credit continues to restructure its operations and reduce personnel, including current plans described in its Current Report on Form 8-K filed January 29, 2009.

Accelerate Development of New Products

We are committed to introducing new products that consumers want and value, and we are receiving very positive reactions from consumers, media, and independent evaluators in response to the products we introduced in 2008, which we plan to build on in 2009.

Ford North America. Ford, Lincoln and Mercury collectively increased U.S. overall and retail market share in October, November, and December 2008 – the first time the brands have posted three consecutive months of market share improvements in 12 years. Our new 2009 Ford F-150 introduced in the fourth quarter was named Motor Trend magazine's Truck of the Year and awarded the title of North American Truck of the Year at the North American International Auto Show in January 2009; the F-Series pickup has been the best-selling truck in the United States for 32 straight years. The F-150 also was named "Top Safety Pick" by the U.S. Insurance Institute for Highway Safety ("IIHS"), and we now have the highest number of vehicles with the IIHS "Top Safety Picks" in the industry. Ford also has more U.S.-government five-star safety-rated vehicles than any other brand. In the fourth quarter of 2008, we also began production of the 2010 Ford Fusion, Mercury Milan and Lincoln MKZ sedans, as well as Fusion and Milan hybrids; the Fusion and Milan gasoline and hybrid versions offer best-in-class fuel economy. The 2010 Ford Mustang debuted with a new exterior and interior, and will arrive in dealerships in spring 2009.

Ford Europe. In Europe, 2009 will mark the first full sales year for the Fiesta, which was named “Car of the Year” by What Car? magazine, Britain’s leading source of new car advice. Fiesta was the United Kingdom's best-selling model in November and December of 2008 and again in January 2009, and is already the second best-selling Ford model in Europe. The new Ford Ka reached full production in Europe and is off to a strong sales start. Ford Galaxy and Ford S-MAX were named No. 1 for reliability among Multi-Activity Vehicles by DEKRA, the German vehicle testing agency. In addition, the Ford Kuga crossover will be available for the first time with a 2.5-litre 5-cylinder Duratec Turbo gas engine and Durashift 5-tronic automatic transmission. Based on the strength of its product portfolio, Ford Europe improved its fourth quarter and full-year 2008 market share in the 19 markets we track, and Ford became the No. 2 selling brand in Europe.

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

Ford South America. In South America, 2009 will demonstrate the growing strength of our "One Ford" plan. We are bringing the new European-based Ford Focus to Brazil, Argentina, and Venezuela. Also in Brazil, the North American-based Ford Edge will arrive in dealerships, along with the European-based Transit, building on Ford South America's business and product success. Six additional product actions also are planned for introduction in the region in 2009.

Ford Asia Pacific Africa. In Asia, 2009 marks the introduction in China of the all-new Ford Fiesta five-door and four-door sedan built in Nanjing. The Fiesta also currently is being introduced in Australia and New Zealand, where our FG Falcon XT was named "Best Large Car" in the highly-regarded Australia's Best Cars Awards in 2008, and Falcon G6E Turbo named 2008 Carguide Car of The Year: People's Choice Award. Other product introductions in 2009 include the new Ranger compact pickup and the Everest SUV, both with advanced, efficient TDCi turbo-diesel engines. In 2008, we launched a freshened Ford Focus in China and Ford Escape in key Asia Pacific Africa markets.

Volvo. Volvo is launching the XC60 crossover in Europe, and in the U.S. market this spring. It also will introduce during 2009 low-emission versions of seven cars, and a freshened S80 for Volvo's flagship sedan.

Drive Quality. We have made significant strides to improve quality through a renewed commitment that touches every aspect of the vehicle process -- from design to manufacturing to product launch – so that quality is designed- and built-into the vehicle. We have established a global set of disciplined, standardized processes aimed at making us the world's leader in automotive quality. Through a single, global management team, we are leveraging our assets by eliminating duplication, implementing best practices and a systematic approach to quality, and utilizing common components for the advantage of scale. The new integrated approach can be seen in the upcoming Fiesta, our first of this generation of global cars. Selling one high-volume version of this vehicle helps us cut costs, reduce defects, and improve overall craftsmanship. In North America, we expect to launch our all-new B- and C-cars with best-in-class quality in 2010. The cumulative effect of these disciplined, global quality standards has been improved owner satisfaction. For example, our domestic initial quality for the 2008 model year is now statistically equivalent to Toyota and Honda, based on internal and external surveys. In the past two years, we have reduced warranty repairs, leading to $1.2 billion in warranty cost savings. We expect improved quality discipline will lead to continued improvement in long-term reliability.

Drive Green. Our goal is to deliver best in class or among the best in class in fuel efficiency in every new vehicle we produce. For example, soon-to-be launched 2010 Ford Fusion and Ford Fusion Hybrid will be the most fuel efficient mid-size sedans in the market. In 2009, we begin the introduction of our new EcoBoost family of gasoline engines, first in the Lincoln MKS and MKT and the Ford Flex, and then across many vehicles in coming years. By combining direct fuel-injection and turbo boosting, the engines can deliver up to 20% better fuel economy and up to 15% fewer CO2 emissions versus larger displacement engines, without sacrificing driving performance. By 2013, we expect to produce 750,000 EcoBoost engines in North America on an annual basis. We have developed a sustainability strategy that outlines future technology pathways for our vehicle production in the near, mid and long term. Near term we are introducing EcoBoost, doubling the number and volume production of our hybrids and implementing fuel saving technologies such as six-speed transmissions and electric power assist steering in the product line up. With our "One Ford" product development vision, we are working to make all small- and medium-sized Ford vehicles competing in global segments common in North America, Europe and Asia within the next five years. This will include Fiesta- and Focus-sized small cars, Fusion- and Mondeo-sized mid-size cars and utilities, and commercial vans. Moreover, Ford recently announced an accelerated electric vehicle strategy. We plan to produce at least four new electric vehicles within the next four years, including a small battery electric commercial van in 2010, a battery electric passenger sedan in 2011, and the next generation hybrid and a plug-in hybrid in 2012. We have entered into a number of collaborative agreements to address the many challenges that remain for electrified transportation, including battery development, standardization, cost, electric infrastructure and connectivity to the national power grid.

Drive Safe. We are expanding on our heritage of leading vehicle safety with both advanced crash protection and crash avoidance technology. The Ford brand has the most U.S. government five-star rated vehicles of any vehicle brand, and we are building on our safety leadership by increasingly addressing driver behavior and broadening “active” collision-avoidance technologies. For example, we are introducing a new feature called MyKey to help parents encourage their teen-agers to drive more safely and more fuel efficiently, and increase safety belt usage. MyKey – which debuts on the 2010 Focus and will quickly become standard on many other Ford, Lincoln and Mercury models – allows owners to program a key that can limit the vehicle’s top speed and audio volume. We also will offer a new advanced collision-avoidance technology, Collision Warning with Brake Support, on certain Ford and Lincoln vehicles in 2009. The feature uses radar to detect slowing or stationary vehicles directly ahead, and warns the driver with an authoritative beep and a red warning light projected on the windshield.

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

Drive Smart. We have significantly accelerated the development of industry-leading technology and innovations that are affordable for millions of customers. We have been recognized as a leader in connectivity with our award-winning SYNC system, which allows for hands-free mobile phone and music player operation. We have upgraded SYNC with features such as 911 Assist and Vehicle Health Reports, and will upgrade SYNC again in the summer of 2009 with new features such as real-time traffic reports and turn-by-turn directions. We currently offer SYNC in North America and plan to roll out the technology globally beginning in 2010, starting in Europe and then migrating to Asia Pacific. We also are developing industry-leading human-machine interface technology to improve the overall driving experience. SmartGauge™ with EcoGuide helps coach Fusion Hybrid drivers to optimize performance of their vehicle for maximum fuel efficiency. It features two high-resolution, full-color liquid crystal display screens on either side of the analog speedometer that can be configured to show different levels of information, including fuel and battery power levels, and average and instant miles per gallon reports.

Finance Our Plan and Improve Our Balance Sheet

The costs associated with the transformation of our business, combined with the effects of the sudden and substantial decline in industry sales volume that accompanied this global economic crisis and other pressures, contributed to substantial negative operating-related and other cash flow during 2008. We have announced and are on track to achieve $14 billion to $17 billion in Automotive cash improvement actions designed to improve our balance sheet in the 2009 – 2010 period, with about one half of the efforts occurring by the end of 2009 and the remainder in 2010. These announced actions include:

- Reducing North American salaried personnel-related costs by an additional 10 percent by the end of January 2009, in addition to personnel-related cost actions already taken or underway globally.
- Eliminating merit pay increases for North America salaried employees in 2009, and eliminating performance bonuses for global salaried employees, including the Annual Incentive Compensation Plan for the 2008 performance year.
- Suspending matching funds for U.S. salaried employees participating in Ford's Savings and Stock Investment Plan.
- Reducing annual capital spending to between $5 billion and $5.5 billion, primarily enabled by reduced launch costs and increased efficiencies in Ford's global product development system.
- Reducing engineering, manufacturing, information technology and advertising costs through greater global efficiencies.
- Reducing inventories globally and achieving other working capital improvements.
- Returning capital from Ford Credit consistent with its plan for a smaller balance sheet and focus on core Ford brands.
- Continuing to develop incremental sources of Automotive funding, including divesting non-core operations and assets, and reducing our debt.

See "Outlook" for discussion of additional factors that we expect will improve our Automotive cash flow in 2009 as compared with 2008.

In addition, as discussed in "Liquidity and Capital Resources," we already have taken further actions in 2009 to improve our Automotive liquidity, including obtaining access to $2.3 billion of Temporary Asset Account ("TAA") assets (as defined in Note 23 of the Notes to the Financial Statements) for use during 2009 and borrowing $10.1 billion under our secured revolving credit facility.

We also applied for $11 billion in loans over time pursuant to Section 136 of the Energy Independence and Security Act of 2007 for the design and production of "advanced technology vehicles" (as defined in the Act). Our application has been determined by the U.S. Department of Energy ("DOE") to be "substantially complete," but remains pending and we have not received notice of the timing by which the loans may be funded. In addition, we are applying for loans from the European Investment Bank ("EIB") of up to €2.3 billion for eligible CO2/emissions-reduction projects over the 2008 to 2012 period. Between the DOE and EIB loans for which we have applied, we expect to receive about $2 billion in 2009.

Two of our competitors with substantial legacy costs and debt, General Motors and Chrysler, currently are engaged in discussions concerning U.S. government-funded restructurings that, if successful, would reduce their legacy costs, align their employee benefit costs with those of other competitors, and substantially reduce their debt. For example, the government proposal for restructuring would require that a significant portion of our competitors' debt and post-retirement benefit obligations be converted into equity. While we do not anticipate entering into a government-funded restructuring, we are pursuing similar restructuring actions to remain competitive.

In February 2009, for example, we reached a tentative agreement with the UAW that includes modified labor costs, benefits, and operating practices to allow us to reach competitive parity with foreign automakers' U.S. manufacturing operations. In addition to this tentative agreement, we tentatively reached agreement with the UAW to provide us the option to settle with Ford Common Stock up to 50% of our future cash payment obligations to the Voluntary Employee Benefits Association retiree health care trust ("VEBA") required by the Retiree Health Care Settlement Agreement. Both the operating-related and VEBA-related tentative agreements are subject to vote and ratification by active UAW-represented Ford hourly employees and to other conditions, including our pursuit of restructuring actions with other stakeholders. The VEBA-related tentative agreement also is subject to court approval and SEC approval of the appropriate accounting treatment acceptable to Ford.

Notwithstanding our option to pay our VEBA obligations in stock in lieu of cash, we will use our discretion in determining which form of payment makes sense at the time of each required payment, balancing liquidity needs and preservation of shareholder value. In making such a determination, we will consider facts and circumstances existing at the time of each required payment, including market and economic conditions, our available liquidity, and the price of Ford Common Stock.

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

Ford Credit has been able to fund its business and support the sale of Ford vehicles despite the challenges of the global economic crisis, largely by reducing receivables, and using its committed liquidity programs and government-sponsored funding programs in the United States and Europe.

Work Together Effectively as One Team

As part of the One Team approach, we have implemented a disciplined business plan process to regularly review our business environment, risks and opportunities, our strategy, our plan, and identify areas of our plan that need special attention and pursue opportunities to improve our plan. Everyone is included and contributes, openness is encouraged, our leaders are responsible and accountable, we use facts and data to make our decisions, high performance teamwork is a performance criteria and we follow this process every week, every month, and every quarter, driving continuous improvement. We believe this process gives us a clear picture of our business in real time and the ability to respond quickly and decisively to new issues and changing conditions – as we have done in the face of rapid changes in the market and business environment in 2008 and into 2009.

In addition, we are partnering with and enlisting all of our stakeholders to help us execute our plan to deal with our business realities and create an exciting and viable Ford business going forward. We are reaching out and listening to customers, dealers, employees, the UAW, suppliers, investors, communities, retirees, and federal, state and local governments. Each of these constituencies is a critical part of, and critical to, the success of our business going forward. Realizing our goal of profitable growth for all is as important to these stakeholders as it is to our shareholders.

RESULTS OF OPERATIONS

FULL-YEAR 2008 RESULTS OF OPERATIONS

Our worldwide net loss was $14.7 billion or $6.46 per share of Common and Class B Stock in 2008, a decline of $12 billion from a loss of $2.7 billion or $1.38 per share in 2007.

Results by business sector for 2008, 2007, and 2006 are shown below (in millions):

	2008	2007	2006
Income/(Loss) before income taxes			
Automotive sector	$ (11,823)	$ (4,970)	$ (17,040)
Financial Services sector	(2,581)	1,224	1,966
Total Company	(14,404)	(3,746)	(15,074)
Provision for/(Benefit from) income taxes (a)	63	(1,294)	(2,655)
Minority interests in net income/(loss) of subsidiaries (b)	214	312	210
Income/(Loss) from continuing operations	(14,681)	(2,764)	(12,629)
Income/(Loss) from discontinued operations	9	41	16
Net income/(loss)	$ (14,672)	$ (2,723)	$ (12,613)

(a) See Note 19 of the Notes to the Financial Statements for disclosure regarding 2008 effective tax rate.

(b) Primarily related to Ford Europe's consolidated 41%-owned affiliate, Ford Otosan. The pre-tax results for Ford Otosan were $531 million in 2008, $551 million in 2007, and $509 million in 2006. See "Item 2. Properties" for additional discussion of Ford Otosan. The decrease in 2008 primarily reflected the accelerated depreciation related to AAI's acquisition of leased facility.

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

Included in Income/(Loss) before income taxes are items we do not consider indicative of our ongoing operating activities ("special items"). The following table details 2008, 2007, and 2006 special items by segment or business unit (in millions):

Automotive Sector	2008	2007	2006
Ford North America			
Fixed asset impairment charges	$ (5,300)	$ —	$ (2,200)
Personnel-reduction programs	(873)	(829)	(2,934)
Gain/(Loss) on sale of ACH plants/assets	(324)	3	—
Accelerated depreciation related to AAI acquisition of leased facility	(306)	—	—
U.S. dealer consolidation (including dealer goodwill impairment)	(219)	—	—
Supplier settlement/Other	(202)	—	—
Ballard restructuring	(70)	—	—
Pension curtailment charges	—	(180)	(2,741)
Variable marketing –change in business practice (a)	—	(1,099)	—
U.S. plant idlings (primarily fixed-asset write-offs)	—	—	(281)
Job Security Benefits (b)	344	80	(1,826)
Retiree health care (primarily curtailment gains)	2,583	1,332	—
Total Ford North America	(4,367)	(693)	(9,982)
Ford South America			
Legal settlement relating to social welfare tax liability	—	—	110
Ford Europe			
Personnel-reduction programs	(82)	(90)	(84)
Variable marketing –change in business practice (a)	—	(120)	—
Plant idling/closure	—	(43)	—
Total Ford Europe	(82)	(253)	(84)
Volvo			
Personnel-reduction programs/Other	(194)	(67)	(217)
Dealer restructuring	(31)	—	—
Goodwill impairment charges	—	(2,400)	—
Variable marketing –change in business practice (a)	—	(87)	—
Total Volvo	(225)	(2,554)	(217)
Ford Asia Pacific Africa			
Personnel-reduction programs/Other	(137)	(23)	(65)
Variable marketing –change in business practice (a)	—	(15)	—
Total Ford Asia Pacific Africa	(137)	(38)	(65)
Mazda			
Impairment of dealer network goodwill	(214)	—	—
Loss on sale of Mazda shares	(121)	—	—
Personnel-reduction programs –AAI	—	—	(38)
Mazda pension transfer	—	—	115
Total Mazda	(335)	—	77
Other Automotive			
Returns on the assets held in the TAA	(509)	—	—
Initial mark-to-market adjustment on Mazda marketable securities	(80)	—	—
Loss on conversion of convertible securities	—	(632)	—

Gain on exchange and purchase of debt securities	141	120	—
Total Other Automotive sector	(448)	(512)	—
Jaguar Land Rover and Aston Martin			
Held-for-sale impairment/loss on sale of Jaguar Land Rover	(559)	—	—
Net gains/(losses) on certain Jaguar Land Rover undesignated hedges	(19)	143	—
Personnel-reduction programs	(4)	(120)	(161)
Fixed asset impairment charges	—	—	(1,600)
Sale of Aston Martin (primarily the gain on sale)	—	208	—
Variable marketing –change in business practice (a)	—	(53)	—
Jaguar Land Rover operating profits for 2008/Other	614	—	—
Total Jaguar Land Rover and Aston Martin	32	178	(1,761)
Total Automotive sector	(5,562)	(3,872)	(11,922)
Financial Services Sector			
Ford Credit net operating lease impairment charges	(2,086)	—	—
Total	$ (7,648)	$ (3,872)	$ (11,922)

(a) Represents a one-time, non-cash charge related to a change in our business practice for offering and announcing retail variable marketing incentives to our dealers. See our Annual Report on Form 10-K for the year ended December 31, 2007 for discussion of this change in business practice.

(b) See Note 18 of the Notes to the Financial Statements for definition and discussion of Job Security Benefits.

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

Included in Provision for/(Benefit from) income taxes are tax benefits of $144 million, $1.5 billion, and $2 billion, for 2008, 2007, and 2006, respectively, that we consider to be special items. These consist of the tax effects of the pre-tax special items listed above, the impact of changes in tax rate on deferred tax balances, and, in 2007, a $1.5 billion benefit reflecting the change in our deferred tax asset valuation allowance allocated to Income/(Loss) from continuing operations after taking into consideration income from Accumulated other comprehensive income/(loss) when determining whether sufficient future taxable income exists to realize deferred tax assets.

The discussion below of Automotive and Financial Services sector results of operations is on a pre-tax basis.

AUTOMOTIVE SECTOR RESULTS OF OPERATIONS

2008 Compared with 2007

Details by segment or business unit of Income/(Loss) before income taxes are shown below (in millions), with Jaguar Land Rover and Aston Martin segment separated out from "ongoing" subtotals:

	2008	2007	2008 Over/ (Under) 2007
Ford North America *	$ (10,248)	$ (4,139)	$ (6,109)
Ford South America	1,230	1,172	58
Ford Europe	970	744	226
Volvo	(1,690)	(2,718)	1,028
Ford Asia Pacific Africa	(290)	2	(292)
Mazda	(105)	182	(287)
Total ongoing Automotive operations	(10,133)	(4,757)	(5,376)
Other Automotive	(1,722)	(1,059)	(663)
Total ongoing Automotive	(11,855)	(5,816)	(6,039)
Jaguar Land Rover and Aston Martin	32	846	(814)
Total Automotive sector	$ (11,823)	$ (4,970)	$ (6,853)

* Includes the sales of Mazda6 by our consolidated subsidiary, AAI.

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

Details by segment of Automotive revenues ("sales") and wholesale unit volumes for 2008 and 2007 are shown below:

	Sales (a) (in billions)				Wholesales (b) (in thousands)			
	2008	2007	2008 Over/(Under) 2007		2008	2007	2008 Over/(Under) 2007	
Ford North America (c)	$ 53.4	$ 70.4	$ (17.0)	(24)%	2,329	2,890	(561)	(19)%
Ford South America	8.6	7.6	1.0	14	435	438	(3)	(1)
Ford Europe	39.0	36.3	2.7	7	1,820	1,918	(98)	(5)
Volvo	14.7	17.8	(3.1)	(17)	359	482	(123)	(26)
Ford Asia Pacific Africa (d)	6.5	7.0	(0.5)	(8)	464	535	(71)	(13)
Total ongoing Automotive operations	122.2	139.1	(16.9)	(12)	5,407	6,263	(856)	(14)
Jaguar Land Rover and Aston Martin	7.0	15.3	(8.3)	(54)	125	292	(167)	(57)
Total Automotive sector	$ 129.2	$ 154.4	$ (25.2)	(16)	5,532	6,555	(1,023)	(16)

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(a) 2008 over/(under) 2007 sales percentages are computed using unrounded sales numbers.
(b) 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.
(c) Includes sales of Mazda6 by our consolidated subsidiary, AAI.
(d) Included in wholesale unit volumes of Ford Asia Pacific Africa are Ford-badged vehicles sold in China and Malaysia by certain unconsolidated affiliates totaling about 185,000 and 205,000 units in 2008 and 2007, respectively. "Sales" above does not include revenue from these units.

Details of Automotive sector market share for selected markets for 2008 and 2007, along with the level of dealer stocks as of December 31, 2008 and 2007, are shown below:

	Market Share			Dealer-Owned Stocks (a) (in thousands)		
	2008	2007	2008 Over/(Under)	2008	2007	2008 Over/(Under)

Market			2007			2007
United States (b)	14.2%	14.6%	(0.4) pts.	442	533	(91)
South America (b) (c)	9.7	10.7	(1.0)	46	36	10
Europe (b) (d)	8.6	8.5	0.1	331	317	14
Volvo – U.S./Europe (d)	0.5/1.3	0.6/1.5	(0.1)/(0.2)	14/39	24/43	(10)/(4)
Asia Pacific and Africa (b) (e) (f)	2.0	2.3	(0.3)	46	58	(12)

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(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 the United States), Lincoln and Mercury brands.

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

(d) European 2008 market share is based, in part, on estimated vehicle registrations for the 19 European markets we track See "Item 1. Business" for discussion of these markets.

(e) Asia Pacific and Africa 2008 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.

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

Overall Automotive Sector

The decline in earnings primarily reflected unfavorable volume and mix ($6.9 billion), fixed asset impairment charges in Ford North America ($5.3 billion), lower returns on our cash portfolio ($1 billion), lower returns on the assets held in the TAA (about $700 million), and a held-for-sale impairment/loss on sale of Jaguar Land Rover (about $600 million). These factors were offset partially by favorable cost changes ($4.3 billion), the non-recurrence of a goodwill impairment charge related to Volvo ($2.4 billion), and favorable retiree health care changes (primarily curtailment gains) ($1.3 billion).

The decrease in revenue is more than explained by lower volumes and lower revenue for Jaguar Land Rover, offset partially by favorable changes in currency exchange.

The table below details our 2008 cost changes at constant volume, mix, and exchange, excluding special items and discontinued operations (in billions):

Explanation of Cost Changes		2008 Better/(Worse) Than 2007
Manufacturing and engineering	Largely explained by hourly and salaried personnel reductions in North America and efficiencies in our plants and processes	$ 1.5
Spending-related	Primarily reflecting lower expense related to the North America asset impairment at the end of the second quarter and the non-recurrence of accelerated depreciation and amortization for facilities that recently closed	1.3
Pension and OPEB	Primarily reflecting health care efficiencies and the effect of U.S. hourly retiree health care VEBA agreement	1.2
Overhead	Primarily reduced salaried personnel levels	1.0
Advertising & sales promotions	Primarily decreased advertising costs in North America	0.4
Warranty-related	Largely explained by quality improvements	0.1
Net product costs	More than explained by commodity cost increases and unfavorable mark-to-market adjustments on commodity hedges	(1.2)
	Total	$ 4.3

Ford North America Segment. The decline in earnings is more than explained by unfavorable volume and mix ($5.4 billion), fixed asset impairment charges ($5.3 billion), and lower net pricing ($1.3 billion), offset partially by favorable cost changes (more than explained by lower manufacturing and engineering, spending-related, and pension and OPEB costs) ($3.5 billion), favorable retiree health care changes (primarily curtailment gains) ($1.3 billion), and the non-recurrence of a variable marketing charge related to a business practice change ($1.1 billion).

Ford South America Segment. The increase in earnings is more than explained by favorable net pricing, offset partially by unfavorable cost changes, unfavorable volume and mix, and unfavorable changes in currency exchange. The unfavorable cost changes are more than explained by higher net product costs.

Ford Europe Segment. The increase in earnings is primarily explained by favorable cost changes, favorable net pricing, and the non-recurrence of a variable marketing charge related to a business practice change, offset partially by unfavorable changes in currency exchange rates and unfavorable volume and mix. The favorable cost changes primarily reflected lower warranty-related and pension costs, offset partially by higher manufacturing and engineering costs.

Volvo Segment. The improvement in earnings is more than explained by the non-recurrence of a goodwill impairment charge and favorable cost changes. These factors were offset partially by unfavorable volume and mix, mainly in the United States and Europe (largely due to lower industry sales volumes, lower market share, and unfavorable product mix), lower net pricing, and unfavorable changes in currency exchange rates. The favorable cost changes primarily reflected lower manufacturing and engineering, overhead, net product, warranty, and advertising costs.

Ford Asia Pacific Africa Segment. The decline in results primarily reflected unfavorable volume and mix, unfavorable changes in currency exchange rates, and higher personnel reduction costs, offset partially by favorable cost changes and higher net pricing. The favorable cost changes primarily reflected lower net product, overhead, and spending-related costs.

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

Mazda Segment. The decline in results are more than explained by a charge as determined under U.S. GAAP representing the impact on Ford of a goodwill impairment related to Mazda-owned dealerships in Japan and the loss on sale of a portion of Ford's share in Mazda.

Other Automotive. The decline in earnings primarily reflected lower returns on our cash portfolio and lower returns on the assets held in the TAA. These factors were offset partially by the non-recurrence of the conversion of convertible securities, lower interest expense, and favorable mark-to-market adjustments for changes in currency exchange rates on intercompany loans.

Jaguar Land Rover and Aston Martin Segment. The decrease in earnings primarily reflected the held-for-sale impairment and loss on sale of Jaguar Land Rover and the non-recurrence of the gain on sale of Aston Martin.

2007 Compared with 2006

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

	2007	2006	2007 Over/ (Under) 2006
Ford North America*	$ (4,139)	$ (15,992)	$ 11,853
Ford South America	1,172	661	511
Ford Europe	744	371	373
Volvo	(2,718)	(256)	(2,462)
Ford Asia Pacific Africa	2	(250)	252
Mazda	182	245	(63)
Total ongoing Automotive operations	(4,757)	(15,221)	10,464
Other Automotive	(1,059)	247	(1,306)
Total ongoing Automotive	(5,816)	(14,974)	9,158
Jaguar Land Rover and Aston Martin	846	(2,066)	2,912
Total Automotive sector	$ (4,970)	$ (17,040)	$ 12,070

* Includes the sale of Mazda6 vehicles by our consolidated subsidiary, AAI.

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

Details of Automotive sector sales and wholesale unit volumes by Automotive segment for 2007 and 2006 are shown below:

	Sales (a) (in billions)				Wholesales (b) (in thousands)			
	2007	2006	2007 Over/(Under) 2006		2007	2006	2007 Over/(Under) 2006	
Ford North America (c)	$ 70.4	$ 70.7	$ (0.3)	—%	2,890	3,123	(233)	(7)%
Ford South America	7.6	5.7	1.9	33	438	381	57	15
Ford Europe	36.3	30.4	5.9	20	1,918	1,846	72	4
Volvo	17.8	16.1	1.7	10	482	460	22	5
Ford Asia Pacific Africa (d)	7.0	6.5	0.5	8	535	517	18	3
Total ongoing Automotive operations	139.1	129.4	9.7	8	6,263	6,327	(64)	(1)
Jaguar Land Rover and Aston Martin	15.3	13.9	1.4	10	292	270	22	8
Total Automotive sector	$ 154.4	$ 143.3	$ 11.1	8%	6,555	6,597	(42)	(1)%

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(a) 2007 over/(under) 2006 sales percentages are computed using unrounded sales numbers.

(b) 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.

(c) Reflects sales of Mazda6 by our consolidated subsidiary, AAI.

(d) 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 205,000 and 158,000 units in 2007 and 2006, respectively. "Sales" above does not include revenue from these units.

Details of Automotive sector market share for selected markets for 2007 and 2006, along with the level of dealer stocks as of December 31, 2007 and 2006, are shown below:

	Market Share		Dealer-Owned Stocks (a) (in thousands)	
		2007		2007

Market	2007	2006	Over/(Under) 2006	2007	2006	Over/(Under) 2006
United States (b)	14.6%	16.0%	(1.4)pts.	533	570	(37)
South America (b) (c)	10.7	11.5	(0.8)	36	40	(4)
Europe (b) (d)	8.5	8.5	—	317	322	(5)
Volvo - U.S./Europe (d)	0.6/1.5	0.7/1.4	(0.1.)/0.1	24/43	19/44	5/(1)
Asia Pacific and Africa (b) (e) (f)	2.3	2.4	(0.1)	58	50	8

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(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 the United States), Lincoln and Mercury brands.

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

(d) European 2007 market share is based, in part, on estimated vehicle registrations for the 19 European markets we track. See "Item 1. Business" for discussion of these markets.

(e) Asia Pacific and Africa 2007 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.

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

Overall Automotive Sector

The improvement in earnings primarily reflected lower charges for Job Security Benefits and personnel-reduction programs in Ford North America ($4 billion), favorable net pricing – including a variable marketing charge related to a business practice change – ($2.6 billion), lower pension curtailment charges ($2.6 billion), the non-recurrence of 2006 impairment charges related to our long-lived assets in Ford North America ($2.2 billion), favorable cost changes ($1.8 billion), the non-recurrence of an impairment charge related to assets in Jaguar Land Rover ($1.6 billion), and retiree health care curtailment gains related to our hourly separation programs ($1.3 billion). These factors were offset partially by higher impairment charges related to assets in Volvo (about $2.4 billion), changes in currency exchange rates (about $900 million), and higher net interest (about $800 million).

The increase in revenue primarily reflected changes in currency exchange rates, improved product mix, and higher net pricing, offset partially by lower volumes (more than explained by North America). Higher net pricing in 2007 compared with 2006 was achieved despite the variable marketing charge related to a business practice change.

The table below details our 2007 cost changes at constant volume, mix, and exchange, excluding special items and discontinued operations (in billions):

Explanation of Cost Changes			2007 Better/(Worse) Than 2006
Warranty-related	Primarily the non-recurrence of adverse 2006 adjustments to Jaguar and Land Rover warranty accruals, and improvements in most operations	$	1.0
Manufacturing and engineering	Primarily hourly and salaried personnel reductions and efficiencies in our plants and processes		0.8
Pension and OPEB	Primarily the favorable impact associated with the mid-2006 implementation of our 2005 retiree health care cost sharing agreement with the UAW, ongoing improvements related to curtailments, and higher pension asset returns		0.8
Spending-related	Primarily reduced depreciation resulting from 2006 asset impairments, as well as lower accelerated depreciation related to our efforts to reduce production capacity		0.8
Overhead	Primarily salaried personnel reductions		0.5
Advertising & sales promotions	Primarily increased advertising costs		(0.2)
Net product costs	Primarily added product content (including diesel engine emission requirements) and higher commodity costs, offset partially by material cost reductions		(1.9)
	Total	$	1.8

Ford North America Segment. The improvement in earnings primarily reflected lower charges for Job Security Benefits and personnel-reduction programs, lower pension curtailment charges, the non-recurrence of 2006 impairment charges related to our long-lived assets, higher net pricing, and retiree health care curtailment gains related to our hourly separation programs.

Ford South America Segment. The increase in earnings is more than explained by higher net revenue and improved volume and mix, offset partially by unfavorable cost changes and the non-recurrence of a 2006 gain associated with a legal settlement relating to a social welfare tax liability. The unfavorable cost changes primarily reflected higher net product costs and higher manufacturing and engineering costs.

Ford Europe Segment. The increase in earnings is more than explained by favorable cost changes and improved volume and mix, offset partially by costs associated with a U.K. plant closure and changes in currency exchange. The favorable cost changes primarily reflected lower warranty-related costs and net product costs, offset partially by higher manufacturing and engineering costs and advertising and sales promotion costs.

Volvo Segment. The decline in earnings primarily reflected an asset impairment charge.

Ford Asia Pacific Africa Segment. The improvement in results primarily reflected favorable cost changes, higher net pricing, and lower charges for personnel-reduction programs, offset partially by less favorable volume and mix. The favorable cost changes primarily reflected lower manufacturing and engineering costs, overhead costs, and net product costs.

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

Mazda Segment. The decrease in earnings primarily reflected the decrease in net earnings at Mazda (including the non-recurrence of a gain Mazda realized on the transfer of its pension liabilities back to the Japanese government), offset partially by the non-recurrence of personnel-reduction programs at AAI.

Other Automotive. The decline in results primarily reflected higher interest expense and related costs associated with the higher debt levels that resulted from financing actions taken in the fourth quarter of 2006, the non-recurrence in Other Automotive of tax-related interest adjustments resulting from settlements with the Internal Revenue Service in 2006, and a loss on the conversion of our convertible securities. These unfavorable factors were offset partially by higher interest income reflecting higher average cash balances, mark-to-market adjustments for changes in exchange rates on intercompany loans and related loan hedges, and a gain on the exchange of debt securities for equity that occurred in December 2007.

Jaguar Land Rover and Aston Martin Segment. The improvement in results is more than explained by the non-recurrence of a fixed asset impairment charge for Jaguar Land Rover, favorable cost changes, favorable net pricing, and the effect of our sale of Aston Martin (primarily the gain on sale). The favorable cost changes primarily reflected lower warranty-related costs (primarily the non-recurrence of adverse 2006 adjustments to Jaguar Land Rover warranty accruals) and overhead costs.

FINANCIAL SERVICES SECTOR RESULTS OF OPERATIONS

2008 Compared with 2007

Details of the full-year Financial Services sector Revenues and Income/(Loss) before income taxes for 2008 and 2007 are shown below:

	Revenues (in billions)			Income/(Loss) Before Income Taxes (in millions)		
	2008	2007	2008 Over/(Under) 2007	2008	2007	2008 Over/(Under) 2007
Ford Credit	$ 16.7	$ 17.8	$ (1.1)	$ (2,559)	$ 1,215	$ (3,774)
Other Financial Services	0.4	0.3	0.1	(22)	9	(31)
Total	$ 17.1	$ 18.1	$ (1.0)	$ (2,581)	$ 1,224	$ (3,805)

Ford Credit

The decrease in pre-tax earnings primarily reflected the significant decline in used vehicle auction values during 2008. This decline in auction values contributed to an impairment charge to Ford Credit's North America segment operating lease portfolio ($2.1 billion), a higher provision for credit losses ($1.2 billion), and higher depreciation expense for leased vehicles (about $700 million). Other factors that explain the decrease in pre-tax earnings include lower volume primarily related to lower average receivables (about $300 million), higher net losses related to market valuation adjustments to derivatives (about $200 million), and the non-recurrence of the gain related to the sale of a majority of Ford Credit's interest in AB Volvofinans (about $100 million). These factors were partially offset by higher financing margin primarily attributable to lower borrowing costs (about $200 million), the non-recurrence of costs associated with Ford Credit's North American business transformation initiative (about $200 million), lower expenses primarily reflecting improved operating costs (about $300 million), and a gain related to the sale of approximately half of Ford Credit's ownership interest in its Nordic operation (about $100 million).

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

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 (includes other structured financings and factoring transactions that have features similar to securitizations);

- Securitized off-balance sheet basis. Includes receivables sold in securitization transactions that, when sold, do not remain on Ford Credit's balance sheet;

- Managed basis. Includes on-balance sheet receivables, excluding unearned interest supplements related to finance receivables, and securitized off-balance sheet receivables 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, it 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 delinquencies, 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, 2008	December 31, 2007
On-Balance Sheet		
Finance receivables		
Retail installment	$ 62.8	$ 73.3
Wholesale	27.7	34.7
Other	2.8	3.4
Total finance receivables, net	93.3	111.4
Net investment in operating leases	22.5	29.7
Total on-balance sheet (a)(b)	$ 115.8	$ 141.1
Unearned Interest Supplements — included in Finance receivables	$ 1.3	$ —
Securitized Off-Balance Sheet		
Finance receivables		
Retail installment	$ 0.6	$ 6.0
Wholesale	—	—
Other	—	—
Total finance receivables	0.6	6.0
Net investment in operating leases	—	—
Total securitized off-balance sheet	$ 0.6	$ 6.0
Managed		
Finance receivables		

Retail installment	$	64.7	$	79.3
Wholesale		27.7		34.7
Other		2.8		3.4
Total finance receivables, net		95.2		117.4
Net investment in operating leases		22.5		29.7
Total managed	$	117.7	$	147.1
Serviced	$	118.0	$	148.0

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(a) At December 31, 2008 and 2007, includes finance receivables of $73.7 billion and $67.2 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, 2008 and 2007, includes net investment in operating leases of $15.6 billion and $18.9 billion, respectively, that have been included 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 until the associated debt or other obligations are satisfied.

(b) Includes allowance for credit losses of $1.7 billion and $1.1 billion at December 31, 2008 and 2007, respectively.

Managed receivables decreased from year-end 2007, primarily reflecting lower North America receivables (mainly due to lower Ford vehicle sales), changes in currency exchange rates, the impact of divestitures and alternative business arrangements, and the second quarter 2008 impairment charge for its North America operating leases.

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

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

Charge-offs (in millions)	2008	2007	2008 Over/(Under) 2007
On-Balance Sheet			
Retail installment and lease	$ 1,089	$ 608	$ 481
Wholesale	29	17	12
Other	17	7	10
Total on-balance sheet	$ 1,135	$ 632	$ 503
Securitized Off-Balance Sheet			
Retail installment and lease	$ 31	$ 65	$ (34)
Wholesale	—	—	—
Other	—	—	—
Total securitized off-balance sheet	$ 31	$ 65	$ (34)
Managed			
Retail installment and lease	$ 1,120	$ 673	$ 447
Wholesale	29	17	12
Other	17	7	10
Total managed	$ 1,166	$ 697	$ 469
Loss-to-Receivables Ratios On-Balance Sheet			
Retail installment and lease	1.10%	0.60%	0.50 pts.
Wholesale	0.09	0.05	0.04
Total including other	0.84%	0.46%	0.38 pts.
Managed			
Retail installment and lease	1.10%	0.61%	0.49 pts.
Wholesale	0.09	0.05	0.04
Total including other	0.84%	0.47%	0.37 pts.

Most of Ford Credit's charge-offs are related to retail installment sale and lease contracts. Charge-offs depend on the number of vehicle repossessions, the unpaid balance outstanding at the time of repossession, the auction price of repossessed vehicles, and other losses associated with impaired accounts and unrecoverable vehicles. Ford Credit incurs credit losses on its wholesale loans, but default rates for these receivables historically have been substantially lower than those for retail installment sale and lease contracts.

Charge-offs and loss-to-receivables ratios for Ford Credit's on-balance sheet and managed portfolios increased from a year ago. These increases primarily reflected higher severity and higher repossessions in the retail installment and lease portfolio, higher unrecoverable vehicles and other losses, and lower recoveries. The higher severity is mainly due to lower auction values in the used vehicle market, an increase in the amount financed, and a higher mix of 72-month contracts. Wholesale and dealer loan charge-offs increased from a year ago, primarily reflecting an increase in dealer defaults.

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

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 (finance receivables (excluding unearned interest supplements), and net investment in operating leases, excluding the allowance for credit losses) for its on-balance sheet portfolio for the years ended December 31 (dollar amounts in billions):

Allowance for Credit Losses	2008	2007
Balance, beginning of year	$ 1.1	$ 1.1
Provision for credit losses	1.8	0.6
Deductions		
Charge-offs before recoveries	1.5	1.1
Recoveries	(0.4)	(0.5)
Net charge-offs	1.1	0.6
Other changes, principally amounts related to translation adjustments and finance receivables sold	0.1	—
Net deductions	1.2	0.6
Balance, end of year	$ 1.7	$ 1.1
Allowance for credit losses as a percentage of end-of-period net receivables	1.40%	0.77%

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

Ford Credit's allowance for credit losses totaled $1.7 billion at December 31, 2008, including about $210 million to reflect higher severities consistent with its updated assumptions due to lower auction values during 2008. The allowance for credit losses is primarily a function of portfolio quality, historical loss performance, and receivable levels.

In purchasing retail finance and lease contracts, Ford Credit uses a proprietary scoring system that classifies contracts using several factors, such as credit bureau information, FICO score, customer characteristics, and contract characteristics. In addition to Ford Credit's proprietary scoring system, it considers other factors, such as employment history, financial stability, and capacity to pay. As of December 31, 2008, about 4% of the outstanding U.S. retail finance and lease contracts in Ford Credit's serviced portfolio were classified as high risk at contract inception, about the same as year-end 2007.

Residual Risk

Ford Credit is exposed to residual risk on operating leases and similar balloon payment products where the customer may return the financed vehicle to Ford Credit. Residual risk is the possibility that the amount Ford Credit obtains from returned vehicles will be less than its estimate of the expected residual value for the vehicle. Ford Credit estimates the expected residual value by evaluating recent auction values, return volumes for its leased vehicles, industry-wide used vehicle prices, marketing incentive plans, and vehicle quality data. For additional discussion, see "Critical Accounting Estimates – Accumulated Depreciation on Vehicles Subject to Operating Leases."

In the second quarter of 2008, higher fuel prices and the weak economic climate in North America resulted in a pronounced shift in consumer preferences from full-size trucks and traditional sport utility vehicles to smaller, more fuel-efficient vehicles. This shift in preferences caused a significant reduction in auction values. As a result of these market factors and Ford Credit's 2008 second quarter adequacy study results, Ford Credit recorded a pre-tax impairment charge of $2.1 billion representing the amount by which the carrying value of certain vehicle lines in our lease portfolio exceeded their fair value (see "Critical Accounting Estimates – Ford Credit North America Investment in Operating Leases").

North America Retail Operating Lease Experience.

Ford Credit uses various statistics to monitor its residual risk:

- Placement volume measures the number of leases Ford Credit purchases in a given period;
- Termination volume measures the number of vehicles for which the lease has ended in the given period; and
- Return volume reflects the number of vehicles returned to Ford Credit by customers at lease-end.

The following table shows operating lease placement, termination, and return volumes for Ford Credit's North America segment, which accounted for about 98% of its total investment in operating leases at December 31, 2008 (in thousands, except for percentages):

	Full Year	
	2008	2007
Placements	317	484

Terminations	381	378
Returns	327	300
Memo:		
Return rates	86%	79%

In 2008, placement volumes were down 167,000 units compared with 2007, primarily reflecting lower industry sales volumes, our lower market share, and changes in our marketing programs which emphasized retail installment sale contracts. Termination and return volumes increased 3,000 units and 27,000 units, respectively, compared with last year, primarily reflecting growth in lease placements since 2004 and higher return rates, consistent with auction values that were lower than expected at the time of contract purchase and a general shift in consumer preferences away from full-size trucks and traditional sport utility vehicles.

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

While Ford Credit continues to offer leasing to customers who prefer this product, lower auction values and the present funding environment have made leasing less economical for Ford Credit and for consumers. This has contributed to a reduction in Ford Credit's lease originations and over time will reduce its residual risk exposure.

U.S. Ford, Lincoln, and Mercury Brand Retail Operating Lease Experience.

The following table shows return volumes for Ford Credit's Ford, Lincoln, and Mercury brand U.S. operating lease portfolio. Also included are auction values at constant fourth quarter 2008 vehicle mix for lease terms comprising about 65% of Ford Credit's active Ford, Lincoln, and Mercury brand U.S. operating lease portfolio (in thousands, except for percentages):

	Full Year	
	2008	2007
Returns		
24-Month term	88	85
36-Month term	61	58
39-Month term/Other term	19	34
Total returns	168	177
Memo:		
Return rates	88%	83%
Auction Values at Constant Fourth Quarter 2008 Vehicle Mix		
24-Month term	$ 14,970	$ 17,475
36-Month term	12,600	14,575

In 2008, Ford, Lincoln, and Mercury brand U.S. return volumes were down 9,000 units compared with 2007, primarily reflecting a shift in lease term placement mix from 24-month to 36-month in 2006, partially offset by higher return rates. Auction values at constant fourth quarter 2008 mix were down $2,505 per unit from 2007 levels for vehicles under 24-month leases, and down $1,975 for vehicles under 36-month leases, primarily reflecting the overall auction value deterioration in the used vehicle market and a shift in consumer preferences from full-size trucks and traditional sport utility vehicles to smaller, more fuel-efficient vehicles.

2007 Compared with 2006

Details of the full-year Financial Services sector Revenues and Income/(Loss) before income taxes for 2007 and 2006 are shown below:

	Revenues (in billions)			Income/(Loss) Before Income Taxes (in millions)		
	2007	2006	2007 Over/(Under) 2006	2007	2006	2007 Over/(Under) 2006
Ford Credit	$ 17.8	$ 16.5	$ 1.3	$ 1,215	$ 1,953	$ (738)
Other Financial Services	0.3	0.3	—	9	13	(4)

Total	$	18.1	$	16.8	$	1.3	$	1,224	$	1,966	$	(742)

Ford Credit

The decrease in pre-tax earnings primarily reflected a higher provision for credit losses primarily related to the non-recurrence of credit loss reserve reductions (about $500 million), lower financing margin primarily related to higher borrowing costs (about $400 million), unfavorable lease residual performance reflected in higher depreciation expense for leased vehicles (about $400 million), and higher other costs primarily due to Ford Credit's North American business transformation initiative (about $100 million). These factors were offset partially by lower expenses primarily reflecting improved operating costs (about $400 million) and lower net losses related to market valuation adjustments to derivatives (about $300 million).

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

LIQUIDITY AND CAPITAL RESOURCES

Automotive Sector

Our industry has been heavily impacted by the global economic crisis, which has included a sudden and substantial decline in global industry sales volume. The dramatic decline in industry sales volume, combined with tight credit markets, other economic factors and trends described above, and the costs associated with transforming our business, have put significant pressure on our Automotive liquidity (as evidenced during 2008 by negative Automotive gross cash flow of $21.2 billion and total Company net loss of $14.7 billion). While the economic environment worsens, we believe that our continued focus on our plan as discussed below is the right strategy to achieve our objectives. Our strategy includes ensuring that we have sufficient funding available with a high degree of certainty throughout the business cycle. Our long-term goal is to improve our core Automotive operations so that we have a high degree of certainty about our capability to generate cash from our operations. In addition, our strategy includes maintaining large gross cash balances, 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. Before 2008, we included in Automotive gross cash those VEBA assets that were invested in shorter-duration fixed income investments and could be used within 18 months to pay for benefits ("short-term VEBA assets"). As a result of the Retiree Health Care Settlement Agreement (discussed in Note 23 of the Notes to the Financial Statements), we did not in 2008 and do not expect in the future to have significant short-term VEBA assets. Gross cash as of December 31 is detailed below for the years shown (in billions):

	December 31,			
	2008	2007	2006	2005
Cash and cash equivalents	$ 6.4	$ 20.7	$ 16.0	$ 13.4
Marketable securities (a)	9.3	2.0	11.3	6.9
Loaned securities	—	10.3	5.3	3.4
Total cash, marketable securities and loaned securities	15.7	33.0	32.6	23.7
Securities-in-transit (b)	—	(0.3)	(0.5)	—
UAW-Ford TAA (c)	(2.3)	—	—	—
Short-term VEBA assets	—	1.9	1.8	1.4
Gross cash (d)	$ 13.4	$ 34.6	$ 33.9	$ 25.1

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(a) Included in 2008 are Ford Credit debt securities that we purchased through December 31, 2008 with a carrying value of $492 million; the estimated fair value of these securities at December 31, 2008 was $437 million. Debt securities with a face and fair value of about $135 million matured on January 15, 2009. Also included are Mazda marketable securities with a fair value of $322 million at December 31, 2008.

(b) The purchase or sale of marketable securities for which the cash settlement was not made by period-end and for which there was a payable or receivable recorded on the balance sheet at period-end.

(c) Amount transferred to UAW-Ford TAA that, due to consolidation, continues to be shown in Cash, marketable securities and loaned securities.

(d) Pursuant to the Retiree Health Care Settlement Agreement (see Note 23 of the Notes to the Financial Statements), in January 2008 we contributed $4.6 billion of assets and reduced our Automotive gross cash accordingly.

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 the TAA and VEBA on gross cash, tax-related transactions, acquisitions and divestitures, capital transactions with the Financial Services sector, dividends paid to shareholders, 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 is useful to investors because it includes in operating-related cash flow elements that we consider to be related to our operating activities (e.g., capital spending) and excludes cash flow elements that we do not consider to be related to the ability of our operations to generate cash (e.g., tax refunds). This differs from a cash flow statement presented in accordance with generally accepted accounting principles ("GAAP") in the United States and differs from Cash flows from operating activities of continuing operations, the most directly comparable U.S. GAAP financial measure.

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):

	2008 (a)	2007	2006
Gross cash at end of period	$ 13.4	$ 34.6	$ 33.9
Gross cash at beginning of period	34.6	33.9	25.1
Total change in gross cash	$ (21.2)	$ 0.7	$ 8.8
Operating-related cash flows			
Automotive income/(loss) before income taxes (excluding special items)	$ (6.3)	$ (1.1)	$ (5.1)
Capital expenditures	(6.5)	(6.0)	(6.8)
Depreciation and special tools amortization	5.5	6.8	7.1
Changes in receivables, inventory and trade payables	(2.9)	(0.7)	(2.0)
Other (b)	(6.4)	1.4	1.2
Subtotal	(16.6)	0.4	(5.6)
Up-front subvention payments to Ford Credit	(2.9)	—	—
Total operating-related cash flows	(19.5)	0.4	(5.6)
Other changes in gross cash			
Cash impact of personnel-reduction programs and Job Security Benefits accrual	(0.7)	(2.5)	(1.2)
Contributions to funded pension plans	(1.0)	(1.6)	(0.8)
Net effect of TAA/VEBA on gross cash	(4.6)	1.2	3.4
Capital transactions with Financial Services sector (c)	—	—	1.4
Tax payments, tax refunds and tax receipts from affiliates	2.2	2.6	0.3
Acquisitions and divestitures	2.5	1.1	0.2
Dividends to shareholders	—	—	(0.5)
Net proceeds from/(Payments on) Automotive sector debt	(0.5)	(0.6)	11.7
Other (d)	0.4	0.1	(0.1)
Total change in gross cash	$ (21.2)	$ 0.7	$ 8.8

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(a) Excluding sale proceeds, total change in Automotive gross cash attributable to Jaguar Land Rover operations was $300 million net cash outflow for 2008. Except for up-front subvention payments to Ford Credit, Jaguar Land Rover cash outflows are excluded from each line item of this table and included in Other within "Other changes in gross cash."
(b) Primarily expense and payment timing differences for items such as pension and OPEB, marketing, and warranty, as well as additional factors such as the impact of foreign currency translation on our cash balances, and tax payments.
(c) Primarily dividends received from Ford Credit, excluding proceeds from Financial Services sector divestitures paid to the Automotive sector. Ford Credit suspended its regular dividend payments in 2007.
(d) In 2008, primarily the net issuance of Ford Common Stock (an inflow of about $800 million) and dividends to minority shareholders of consolidated subsidiaries (an outflow of about $200 million).

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

	2008 (a)	2007	2006
Cash flows from operating activities of continuing operations (b)	$ (12.4)	$ 8.7	$ (4.2)
Items included in operating-related cash flows			
Capital expenditures	(6.5)	(6.0)	(6.8)
Net transactions between Automotive and Financial Services sectors (c)	(0.8)	(0.3)	(0.5)
Net cash flows from non-designated derivatives	1.2	1.1	0.2
Foreign currency translation	(0.3)	0.5	0.1
Items not included in operating-related cash flows			
Cash impact of personnel-reduction programs and Job Security Benefits reserve	0.7	2.5	1.2
Net (sales)/purchases of trading securities	—	(4.5)	6.8
Contributions to funded pension plans	1.0	1.6	0.8
VEBA cash flows (reimbursement for benefits paid)	—	(1.1)	(2.9)
Tax refunds, tax payments, and tax receipts from affiliates	(2.2)	(2.6)	(0.3)
Other (b)	(0.2)	0.5	—
Operating-related cash flows	$ (19.5)	$ 0.4	$ (5.6)

(a) Except as noted (see footnote (b) below), 2008 data exclude Jaguar Land Rover; 2007 and 2006 include Jaguar Land Rover.

(b) Includes Jaguar Land Rover.

(c) Primarily payables and receivable's between the Automotive and Financial Services sectors in the normal course of business. For example, vehicle wholesale loans that are made by Ford Credit to Ford-owned dealers.

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

Debt and Net Cash. At December 31, 2008, our Automotive sector had total debt of $25.8 billion, compared with $26.9 billion a year ago. This reduction is primarily explained by various exchanges of debt securities with an aggregate principal amount of $431 million for shares of Ford Common Stock, debt transferred to the buyer upon the sale of Jaguar Land Rover, favorable currency exchange, and the conversion of senior convertible notes to shares of Ford Common Stock.

At December 31, 2008, our Automotive sector had negative net cash (defined as gross cash less total debt) of $12.4 billion, compared with net cash of $7.7 billion at the end of 2007.

The weighted-average maturity of our total Automotive debt is approximately 15 years, and is measured based on the maturity dates of our debt or the first date of any put option available to the owners of our debt. About $3 billion of debt matures by December 31, 2012, and about $15 billion matures or has a put option by December 31, 2017. For additional information on debt, see Note 16 of the Notes to the Financial Statements.

Pursuant to the Retiree Health Care Settlement Agreement, on April 9, 2008 we issued to a wholly-owned subsidiary Ford-UAW Holdings LLC, $3.3 billion principal amount of our 5.75% Senior Convertible Note Due 2013 (the "Convertible Note") and $3 billion principal amount of our 9.50% Guaranteed Secured Note Due January 1, 2018 (the "Second Lien Note"). Upon the required transfer of the Convertible Note and Second Lien Note to a new external VEBA established pursuant to the Retiree Health Care Settlement Agreement, which is expected to occur at December 31, 2009, our Automotive and total Company net debt would increase by about $6.3 billion as a result of the Convertible Note and Second Lien Note becoming outstanding at that time for financial reporting purposes. The amount of the Automotive sector debt increase would depend on market yields for similar debt.

In January 2009, we liquidated the assets in the TAA and replaced them with a promissory note owing by Ford to Ford-UAW Holdings LLC, allowing us to access the TAA assets as another available source of liquidity for use during 2009 in our operations. The promissory note is in the principal amount of $2.3 billion (the market value of the TAA assets at December 31, 2008); matures on December 31, 2009; bears interest at 9% per annum; and requires payment of an amount, if any, by which the returns in a hypothetical investment portfolio of the TAA assets would have exceeded a 9% return for 2009, not to exceed $150 million.

See "Overview" above for discussion of a tentative agreement we have reached with the UAW to modify the Retiree Health Care Settlement Agreement and the related notes.

Secured Credit Agreement. On December 15, 2006, we entered into a secured credit agreement (the "Credit Agreement") which provides for a seven-year, $7 billion term-loan facility and a five-year revolving credit facility of $11.5 billion. The Credit Agreement has been filed and is incorporated by reference herein as Exhibit 10-AA hereto. Due to concerns about the instability in the capital markets with the uncertain state of the global economy, on January 29, 2009, we gave notice to borrow the total unused amount (i.e., $10.9 billion) under our secured revolving credit facility. On February 3, 2009, the requested borrowing date, the lenders under that facility advanced to us $10.1 billion. As expected, the unused portion of the $890 million commitment of Lehman Commercial Paper Inc. ("LCPI"), one of the lenders under the facility, was not advanced because LCPI filed for protection under Chapter 11 of the U.S. Bankruptcy Code on October 5, 2008. The total $10.1 billion revolving loan will bear interest at LIBOR plus a margin of 2.25% and will mature on December 15, 2011. For more information about this revolving credit facility, see Note 16 of the Notes to the Financial Statements.

The borrowings of the Company, the subsidiary borrowers, and the guarantors under the Credit Agreement are secured by a substantial portion of our domestic Automotive assets. The collateral includes a majority of our principal domestic manufacturing facilities, excluding facilities to be closed, subject to limitations set forth in existing public indentures and other unsecured credit agreements; domestic accounts receivable; domestic inventory; up to $4 billion of marketable securities or cash proceeds therefrom; 100% of the stock of our principal domestic subsidiaries, including Ford Credit (but excluding the assets of Ford Credit); certain intercompany notes of Volvo Holding Company Inc. (a holding company for Volvo), Ford Motor Company of Canada, Limited ("Ford Canada") and Grupo Ford S. de R.L. de C.V. (a Mexican subsidiary); 66% to 100% of the stock of all major first tier foreign subsidiaries (including Volvo); and certain domestic intellectual property, including trademarks.

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

The Credit Agreement requires ongoing compliance with a borrowing base covenant and contains other restrictive covenants, including a restriction on our ability to pay dividends. The Credit Agreement prohibits the payment of dividends (other than dividends payable solely in stock) on Ford Common and Class B Stock, subject to certain limited exceptions. In addition, the Credit Agreement contains a liquidity covenant requiring us to maintain a minimum of $4 billion in the aggregate of domestic cash, cash equivalents, loaned and marketable securities and short-term VEBA assets and/or availability under the revolving credit facility.

With respect to the borrowing base covenant, we are required to limit the outstanding amount of debt under the Credit Agreement as well as certain permitted additional indebtedness secured by the collateral described above such that the total debt outstanding does not exceed the value of the collateral as calculated in accordance with the Credit Agreement (the "Borrowing Base value").

The following table provides detail of Borrowing Base value for various categories of collateral (in millions, except percentages):

	Eligible Value (a)	Advance Rate	Borrowing Base
U.S. receivables$	$ 377	75%	$ 283
U.S. inventory	2,256	60%	1,354
Pledge of intercompany notes	5,912	N/A	3,658
Pledge of equity in Ford Credit and certain foreign subsidiaries (net of intercompany transactions)	15,697	75%	11,773
U.S. property, plant and equipment subject to indenture limitation	4,846	N/A	2,329
Other U.S. machinery and equipment	3,216	40%	1,286
Intellectual property and U.S. trademarks (b)	7,900	N/A	2,500
Eligible value/borrowing base	$ 40,204		$ 23,183

(a) Based on formulas set forth in the Credit Agreement, and not necessarily indicative of fair market value (which could be materially higher or lower); receivables, inventory, intercompany notes, and property, plant and equipment reflect net book value at December 31, 2008; equity of Ford Credit is based on its book value at December 31, 2008, net of certain intercompany transactions, and equity in other subsidiaries is based on a multiple of their two-year average EBITDA less debt.

(b) Value reflects independent third party valuation of trademarks.

As of December 31, 2008, the Borrowing Base value and the total outstanding amount of debt secured by collateral were $23,183 million and $7,354 million, respectively, which resulted in collateral coverage ratio of 3.15 to 1. On a pro forma adjusted basis to take into account the $10.1 billion revolving loan advanced to us on February 3, 2009, the resulting collateral coverage ratio would have been 1.33 to 1 at December 31, 2008.

The borrowing base increased by $1.1 billion over December 31, 2007 primarily due to improved equity in Ford Espana S.A. and the inclusion of Ford Deutschland Holdings, GmbH offset partially by the second quarter North America fixed asset impairment, elimination of certain intercompany notes as a result of the Jaguar Land Rover divestiture, and reductions in North America inventory levels.

In addition to customary payment, representation, bankruptcy, and judgment defaults, the Credit Agreement contains cross-payment and cross-acceleration defaults with respect to other debt for borrowed money, and a change in control default.

Other Credit Facilities. Excluding our secured revolving credit facility discussed above, at December 31, 2008, we had $722 million of other contractually-committed Automotive credit facilities with financial institutions, including $141 million of worldwide Automotive unsecured credit facilities and $581 million of local credit facilities to foreign Automotive affiliates. Of the $195 million borrowed under these lines, most matures in 2009. Of the $527 million available for use, $121 million are committed through June 30, 2009, $25 million are committed through June 30, 2010, $327 million are committed through April 1, 2012, and the remainder expire before June 30, 2009.

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

Pension Plan Contributions. Our policy for funded plans is to contribute annually, at a minimum, amounts required by applicable laws and regulations. We do from time to time make contributions beyond those legally required.

In 2008, we made $1.7 billion of cash contributions to our funded pension plans, including plans for our former Jaguar and Land Rover operations. During 2009, we expect to contribute to worldwide pension plans $1.5 billion from available Automotive cash and cash equivalents. This amount includes about $400 million of benefit payments paid directly by us for unfunded plans. Based on current assumptions and regulations, we do not expect to have a legal requirement to fund our major U.S. pension plans in 2009. For a further discussion of our pension plans, see Note 23 of the Notes to the Financial Statements.

Financial Services Sector

Ford Credit

Ford Credit has been able to fund its business and support the sale of Ford vehicles despite the challenges of the global economic crisis, largely by reducing receivables and using its committed liquidity programs and government-sponsored funding programs in the United States and Europe. Ford Credit's funding strategy is to maintain liquidity to meet short-term funding obligations by having a substantial cash balance and committed funding capacity. As a result of lower unsecured credit ratings assigned to Ford Credit over the past few years, its unsecured funding costs have increased over time. While Ford Credit continues to access the unsecured debt market when it makes sense to do so, Ford Credit has increased its use of securitization funding as it has been more cost effective than unsecured funding and allowed Ford Credit access to a broad investor base. Ford Credit plans to meet a significant portion of its 2009 funding requirements through securitizations, including the use of government-sponsored funding programs. In addition, Ford Credit has various alternative business arrangements for select products and markets that reduce its funding requirements while allowing it to support us (e.g., Ford Credit's partnering in Brazil for retail financing and FCE Bank plc's ("FCE") partnering with various financial institutions in Europe for full service leasing and retail and wholesale financing). Ford Credit is continuing to explore and execute such alternative business arrangements. Ford Credit has applied for FDIC and State of Utah approval for an industrial loan corporation, which if approved will allow Ford Credit to obtain funding by issuing FDIC-insured certificates of deposit.

Consistent with the overall market, Ford Credit has been impacted by volatility and disruptions in the asset-backed securities markets since August 2007. Ford Credit continues to face the challenges of the global credit crisis, including reduced access to public and private securitization markets, a significant increase in the credit spreads associated with both asset-backed and unsecured funding, higher renewal costs on its committed liquidity programs, higher enhancements resulting in reduced net proceeds from securitizations, shorter maturities in Ford Credit's public and private securitization issuances in certain circumstances, and a reduction in its capacity to obtain derivatives to manage market risk, including interest rate risk, in its securitization programs. Given present market conditions, Ford Credit does not expect a significant near-term reduction in its credit spreads or the cost of renewing its committed liquidity programs.

Ford Credit's funding plan is subject to risks and uncertainties, many of which are beyond its control. If auction values for used vehicles weaken further or there is continued disruption in the market for the types of asset-backed securities used in Ford Credit's asset-backed funding, there will be increased risk to Ford Credit's funding plan. As a result, Ford Credit may need to further reduce the amount of finance receivables and operating leases it purchases or originates; this reduction could reduce its ongoing profits and adversely affect its ability to support the sale of Ford vehicles.

Debt and Cash. Ford Credit's total debt plus securitized off-balance sheet funding was $127 billion at December 31, 2008, $17.7 billion lower compared with a year ago. At December 31, 2008, Ford Credit's cash, cash equivalents and marketable securities (excluding marketable securities related to insurance activities) totaled $23.6 billion (including $5.5 billion to be used only to support on-balance sheet securitizations, compared with $4.7 billion at year-end 2007). In the normal course of its funding activities, Ford Credit may generate more proceeds than are required for its immediate funding needs. These excess amounts are maintained as highly liquid investments, which provide liquidity for Ford Credit's short-term funding needs and give Ford Credit flexibility in the use of its other funding programs.

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

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

Ford Credit's funding sources include primarily securitizations and, to a limited extent, unsecured debt. Ford Credit issues both short- and long-term debt that is held by both institutional and retail investors, with long-term debt having an original maturity of more than 12 months. Ford Credit sponsors a number of securitization programs that can be structured to provide both short- and long-term funding through institutional investors in the United States and international capital markets. During 2008, Ford Credit continued to meet a significant portion of its funding requirements through securitizations because of their lower relative costs given its credit ratings (as described below) and the diversity of funding sources that they provide. Securitized funding (both on- and off-balance sheet, net of retained interests), as a percent of total managed receivables, was as follows at the end of each of the last three years: 2008 – 62%, 2007 – 51%, 2006 – 48%.

Ford Credit obtains short-term unsecured funding from the sale of floating rate demand notes under its Ford Interest Advantage program and by issuing unsecured commercial paper in the United States, Europe, and other international markets. At December 31, 2008, the principal amount outstanding of Ford Interest Advantage notes, which may be redeemed at any time at the option of the holders thereof without restriction, was about $2 billion. At present, all of Ford Credit's short-term credit ratings by SEC-designated nationally recognized statistical rating organizations (the "NRSROs") are below the Tier-2 category, and as a result it has limited access to the unsecured commercial paper market and Ford Credit's unsecured commercial paper cannot be held by money market funds. At December 31, 2008, the principal amount outstanding of Ford Credit's unsecured commercial paper was about $12 million. Ford Credit does not hold reserves specifically to fund the payment of any of its unsecured short-term funding obligations. Instead, Ford Credit maintains multiple sources of liquidity, including cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities), unused committed liquidity programs, excess securitizable assets, and committed and uncommitted credit facilities, which Ford Credit believes should be sufficient for its unsecured short-term funding obligations.

Government-Sponsored Funding Programs. Ford Credit's near-term funding sources include government-sponsored funding programs. In October 2008, Ford Credit registered to sell up to $16 billion of Ford Credit's retail securitization program ("FCAR") asset-backed commercial paper to the U.S. Federal Reserve's Commercial Paper Funding Facility ("CPFF"). Each sale under the CPFF is for a term of 90 days and sales can be made through October 30, 2009. Through December 31, 2008, Ford Credit sold to the CPFF about $7 billion of FCAR asset-backed commercial paper. In addition, as of December 31, 2008, FCE had accessed $1.1 billion of short-term funding under the European Central Bank's ("ECB") open market operations program under which obligations are backed by either notes or receivables. In January 2009, the ECB announced an increase in the minimum ratings threshold required to access funding under this facility and the higher ratings requirement could reduce FCE's level of funding from this facility.

In November 2008, the U.S. Federal Reserve announced the Term Asset-Backed Securities Loan Facility ("TALF"), pursuant to which the Federal Reserve Bank of New York will provide up to $200 billion of non-recourse loans to investors in highly-rated asset-backed securities who pledge these securities as collateral for the non-recourse loans. Asset-backed securities backed by automotive retail, lease, and wholesale finance receivables qualify for the TALF program. On February 10, 2009, this program was further expanded to $1 trillion by the Consumer and Business Lending Initiative as part of the Financial Stability Plan announced by the U.S. Treasury.

To be eligible for TALF, asset-backed securities must be issued after January 1, 2009, and all or substantially all of the underlying automotive finance receivables must have been originated on or after October 1, 2007. To appeal to a broad investor base for its asset-backed securities, Ford Credit plans to make the majority of its 2009 U.S. asset-backed securitizations eligible for TALF, which would require that these securitizations have a credit rating in the highest long-term or short-term investment grade rating category from two or more major NRSROs (as designated by the Federal Reserve Bank) and not have a credit rating below the highest investment grade rating category from any major NRSRO.

Wholesale securitization under the TALF program is limited to the amount of an issuer's wholesale securitizations maturing in 2009, which for Ford Credit would limit its TALF-eligible wholesale issuances to $6.5 billion, assuming the relevant credit rating requirements are met. At this time, Ford Credit does not meet the credit rating requirements under TALF and the ECB program for its wholesale securitizations, but is working toward meeting the credit rating requirements in the near future. Ford Credit's inability to obtain the necessary credit ratings for its issuances would limit its ability to finance wholesale receivables for our dealers.

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

Due to the present global credit crisis and Ford Credit's limited access to public and private securitization markets, Ford Credit expects the majority of its funding in 2009 will consist of eligible issuances pursuant to government-sponsored programs.

In addition, in January 2009, the Canadian government announced a C$12 billion Canadian Secured Credit facility which is intended to provide asset-backed funding for automotive and commercial loans and leases. Ford Credit plans to pursue funding under this program and any other global government-sponsored programs for which it is eligible.

Credit Facilities and Committed Liquidity Programs. See Note 16 of the Notes to the Financial Statements for more information regarding credit facilities and committed liquidity programs for Ford Credit. As a result of the continued asset-backed securities market volatility that began in August 2007 and significantly worsened in the second half of 2008, there is a risk to the renewal of some of these committed liquidity programs, which could lead to a reduction in the size of these programs and/or higher costs.

Funding Portfolio. Ford Credit's outstanding debt and off-balance sheet securitizations were as follows on the dates indicated (in billions, except for ratios):

	December 31,	
Debt	2008	2007
Asset-backed commercial paper (a)(b)	$ 11.5	$ 13.5
Other asset-backed short-term debt (a)	5.6	5.2
Ford Interest Advantage	2.0	5.4
Unsecured commercial paper	—	0.5
Other short-term debt	1.1	1.5
Total short-term debt	20.2	26.1
Unsecured long-term debt (including notes payable within one year)	51.2	62.8
Asset-backed long-term debt (including notes payable within one year) (a)	55.1	50.5
Total debt	126.5	139.4
Off-Balance Sheet Securitizations		
Securitized off-balance sheet portfolio	0.6	6.0
Retained interest	(0.1)	(0.7)
Total off-balance sheet securitizations	0.5	5.3
Total debt plus off-balance sheet securitizations	$ 127.0	$ 144.7
Ratios		
Securitized funding to managed receivables	62%	51%
Short-term debt and notes payable within one year to total debt	50	43
Short-term debt and notes payable within one year to total capitalization	46	39

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(a) Obligations issued in securitizations that are payable only out of collections on the underlying securitized assets and related enhancements.
(b) At December 31, 2008, includes $7 billion of asset-backed commercial paper sold to the CPFF.

At December 31, 2008, Ford Credit's unsecured long-term debt (including notes payable within one year) was down about $12 billion from year-end 2007, primarily reflecting about $14 billion of debt maturities and about a $1 billion decrease in the debt balance due to changes in currency exchange rates offset partially by about $3 billion of unsecured long-term debt issuance. Unsecured long-term debt maturities were as follows: 2009 – $16 billion; 2010 – $8 billion; 2011 – $12 billion; and the remainder thereafter. On October 15, 2008, holders of $2 billion of debt with an original maturity date of 2012 exercised their option to sell (put) the bonds back to Ford Credit and receive full payment of their principal in April 2009. These bonds are reflected in the 2009 maturities. In 2008, Ford Credit repurchased about $200 million par value of unsecured debt with original maturity in the first half of 2009. From January 1, 2009 through February 25, 2009, Ford Credit repurchased about $200 million par value of its unsecured debt with original maturity in the first half of 2009 and included in the maturities above. In addition, in 2008 we purchased about $500 million of Ford Credit's unsecured debt.

At December 31, 2008, Ford Credit’s asset-backed long-term debt (including notes payable within one year) was up about $5 billion from year-end 2007, reflecting asset-backed long-term debt issuance in excess of amortization of asset-backed debt. Ford Credit’s securitized off-balance sheet funding was down about $5 billion from year-end 2007, reflecting the amortization of previous securitizations.

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

Funding Plan. The following table illustrates Ford Credit's public and private term funding issuances for 2007 and 2008 and its planned issuances for 2009 (in billions):

	2009 Forecast	2008	2007
Public Term Funding			
Unsecured	$ 0–2	$ 2	$ 6
Securitizations (a)	5–10	11	6
Total public term funding	$ 5–12	$ 13	$ 12
Private Term Funding (b)	$ 10–15	$ 29	$ 28

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(a) Reflects new issuance; excludes other structured financings.
(b) Includes private term debt, securitizations, other structured financings, and other term funding; excludes sales to Ford Credit's on-balance sheet asset-backed commercial paper programs.

The cost of securitizations and unsecured debt funding is based on a margin or spread over a benchmark interest rate. Spreads are typically measured in basis points. Ford Credit's asset-backed funding and unsecured long-term debt costs are based on spreads over U.S. Treasury securities of similar maturities, a comparable LIBOR or other comparable benchmark rates. Ford Credit's unsecured commercial paper funding costs are based on spreads to LIBOR. Ford Credit's floating rate demand notes funding costs are changed depending on market conditions. In addition to enhancing Ford Credit's liquidity, one of the main reasons that Ford Credit has increased its use of securitizations as a funding source over the last few years has been that spreads on its securitizations have been more stable and lower than those on its unsecured long-term debt funding. Prior to August 2007, Ford Credit's securitized funding spreads (which are based on the creditworthiness of the underlying securitized asset and enhancements) were not volatile, while its unsecured long-term spreads were volatile. Consistent with the overall market, Ford Credit was impacted by volatility in the asset-backed securities markets beginning in the second half of 2007. Ford Credit experienced higher spreads for several of its committed liquidity programs as well as its public and private issuances. In the first half of 2008, Ford Credit's spreads on the fixed rate notes offered in its U.S. public retail securitizations ranged between 80 and 200 basis points over the relevant benchmark rates (U.S. public retail securitizations were not offered in the second half of 2008). During 2008, Ford Credit's U.S. unsecured long-term debt funding spreads as measured by the five-year credit default swap market ranged between 690 basis points over LIBOR and more than 2,500 basis points over LIBOR.

Ford Credit's funding plan is subject to risks and uncertainties, many of which are beyond its control. If credit markets continue to constrain term securitization funding, Ford Credit will consider reducing its assets below the low-end of its projected year-end 2009 managed receivables balance (i.e., below $90 billion).

Balance Sheet Liquidity Profile. Ford Credit defines its balance sheet liquidity profile as the cumulative maturities of its finance receivables, investment in operating leases, and cash less the cumulative debt maturities over upcoming annual periods. The following table shows Ford Credit's balance sheet liquidity profile for the periods presented as of December 31, 2008 (in billions):

	Cumulative Maturities			
	Through 2009	Through 2010	Through 2011	Through 2012 and

								Thereafter
Finance receivables (a), investment in operating leases (b) and cash (c)	$	89.3	$	116.5	$	131.6	$	142.4
Debt		(71.3)		(91.7)		(109.7)		(126.5)
Finance receivables, investment in operating leases and cash over/(under) debt	$	18.0	$	24.8	$	21.9	$	15.9

(a) Finance receivables net of unearned income.
(b) Investment in operating leases net of accumulated depreciation.
(c) Cash includes cash, cash equivalents and marketable securities (excludes marketable securities related to insurance activities) at December 31, 2008.

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

Ford Credit's balance sheet is inherently liquid because of the short-term nature of its finance receivables, investment in operating leases, and cash. Maturities of investment in operating leases consist primarily of rental payments attributable to depreciation over the remaining life of the lease and the expected residual value at lease termination. The table above reflects the following adjustments to debt maturities to match all of the asset-backed debt maturities with the underlying asset maturities:

- The 2009 maturities include all of the wholesale securitizations that otherwise extend beyond 2009; and
- Retail and lease securitizations under certain committed liquidity programs are treated as amortizing on January 1, 2009 instead of amortizing after the contractual maturity of those committed liquidity programs that otherwise extend beyond January 1, 2009.

Leverage. Ford Credit uses leverage, or the debt-to-equity ratio, to make various business decisions, including evaluating and establishing pricing for retail, wholesale, and lease financing, and assessing our capital structure. Ford Credit refers to its shareholder's interest and its historical stockholder's equity as equity. Ford Credit calculates leverage on a financial statement basis and on a managed basis using the following formulas:

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

$$\text{Managed Leverage} = \frac{\text{Total Debt} + \text{Securitized Off-Balance Sheet Receivables} - \text{Retained Interest in Securitized Off-Balance Sheet Receivables} - \text{Cash and Cash Equivalents and Marketable Securities (a)} - \text{Adjustments for Derivative Accounting on Total Debt (b)}}{\text{Equity} + \text{Minority Interest} - \text{Adjustments for Derivative Accounting on Equity (b)}}$$

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(a) Excluding marketable securities related to insurance activities.

(b) Primarily related to market valuation adjustments to derivatives due to movements in interest rates. Adjustments to debt are related to designated fair value hedges and adjustments to equity are related to retained earnings.

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

	December 31,		
	2008	2007	2006

Total debt	$	126.5	$	139.4	$	139.7
Total equity		10.6		13.4		11.8
Financial statement leverage (to 1)		12.0		10.4		11.9

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

	December 31,					
		2008		2007		2006
Total debt	$	126.5	$	139.4	$	139.7
Securitized off-balance sheet receivables outstanding		0.6		6.0		12.2
Retained interest in securitized off-balance sheet receivables		(0.1)		(0.7)		(1.0)
Adjustments for cash, cash equivalents and marketable securities (a)		(23.6)		(16.7)		(21.8)
Adjustments for derivative accounting (b)		(0.4)		—		(0.1)
Total adjusted debt	$	103.0	$	128.0	$	129.0
Total equity (including minority interest)	$	10.6	$	13.4	$	11.8
Adjustments for derivative accounting (b)		(0.2)		(0.3)		(0.5)
Total adjusted equity	$	10.4	$	13.1	$	11.3
Managed leverage (to 1)		9.9		9.8		11.4

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(a) Excluding marketable securities related to insurance activities.

(b) Primarily related to market valuation adjustments to derivatives due to movements in interest rates. Adjustments to debt are related to designated fair value hedges and adjustments to equity are related to retained earnings.

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

Ford Credit believes that managed leverage is useful to its investors because it reflects the way Ford Credit manages its business. Ford Credit retains interests in receivables sold in off-balance sheet securitization transactions and, with respect to subordinated retained interests, is exposed to credit risk. Accordingly, Ford Credit evaluates charge-offs, receivables and leverage on a managed as well as a financial statement basis. Ford Credit also deducts cash and cash equivalents and marketable securities (excluding marketable securities related to insurance activities) because they generally correspond to excess debt beyond the amount required to support its operations and amounts to support its on-balance sheet securitizations.

In addition, Ford Credit adds its minority interests to its financial statement equity because all of the debt of such consolidated entities is included in its total debt. Ford Credit makes derivative accounting adjustments to its assets, debt, and equity positions to reflect the impact of interest rate instruments Ford Credit uses in connection with its term-debt issuances and securitizations. The derivative accounting adjustments related to these instruments vary over the term of the underlying debt and securitized funding obligations based on changes in market interest rates. Ford Credit generally repays its debt obligations as they mature. As a result, Ford Credit excludes the impact of these derivative accounting adjustments on both the numerator and denominator in order to exclude the interim effects of changes in market interest rates. Ford Credit believes the managed leverage measure provides its investors with meaningful information regarding management's decision-making processes.

Ford Credit plans its managed leverage by considering prevailing market conditions and the risk characteristics of its business. At December 31, 2008, Ford Credit's managed leverage was 9.9 to 1, compared with 9.8 to 1 a year ago. In 2008, Ford Credit did not pay any distributions. See "Outlook" for discussion of Ford Credit's planned 2009 distributions.

Securitizations by Ford Credit

Securitization. Ford Credit securitizes finance receivables and net investment in operating leases through a variety of programs, utilizing amortizing, variable funding and revolving structures. Ford Credit's securitization programs are targeted to many different investors in both public and private transactions in capital markets worldwide. Ford Credit completed its first securitization in 1988, and regularly securitizes assets, purchased or originated, in the United States, Canada, Mexico, and Europe (including the United Kingdom, Germany, Spain, Italy, and France).

Most of Ford Credit's securitizations do not satisfy the requirements for accounting sale treatment, and the securitized assets and associated debt remain on Ford Credit's balance sheet. Some of Ford Credit's securitizations, however, do satisfy accounting sale treatment and are not reflected on its balance sheet in the same way as debt funding. All of Ford Credit's securitization transactions since January 2007 have been on-balance sheet transactions. Both on- and off-balance sheet securitizations have an effect on its financial condition, operating results and liquidity.

Ford Credit securitizes its assets because the securitization market provides it with a lower cost source of funding compared with unsecured debt given our present credit ratings, and it diversifies Ford Credit's funding among different markets and investors. In the United States, Ford Credit generally is able to obtain funding in two days for its unutilized capacity in most of its committed liquidity programs. New programs and new transaction structures typically require substantial development time before coming to market. As a result of ongoing market volatility, Ford Credit's ability to access non-committed sources is limited at this time. This market volatility has impacted the timing, amount, cost, enhancements, and types of securitizations Ford Credit is able to complete.

In a securitization transaction, the securitized assets are generally held by a bankruptcy-remote special purpose entity ("SPE") in order to isolate the securitized assets from the claims of Ford Credit's other creditors and to insure that the cash flows on the securitized assets are available for the benefit of securitization investors. As a result, payments to securitization investors are based on the creditworthiness of the securitized assets and any enhancements, and not on Ford Credit's creditworthiness. Senior asset-backed securities issued by the SPEs generally receive the highest short-term credit ratings and among the highest long-term credit ratings from the rating agencies that rate them.

Securitization SPEs have limited purposes and generally are only permitted to purchase the securitized assets, issue the asset-backed securities and make payments on the securities. Some SPEs, such as the trusts that issue securities backed by retail installment sale contracts, only issue a single series of securities and generally are dissolved when those securities have been paid in full. Other SPEs, such as the trusts that issue securities backed by wholesale receivables, issue multiple series of securities from time to time and are not dissolved until the last series of securities is paid in full.

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

Ford Credit's use of SPEs in its securitizations is consistent with conventional practices in the securitization industry. Ford Credit sponsors the SPEs used in all of its securitization programs with the exception of bank-sponsored conduits. None of Ford Credit's officers, directors or employees holds any equity interests in its SPEs or receives any direct or indirect compensation from the SPEs. These SPEs do not own Ford Credit's shares or shares of any of its affiliates.

In order to be eligible for inclusion in a securitization transaction, each asset must satisfy certain eligibility criteria designed for the specific transaction. For example, for securitizations of retail installment sale contracts, the selection criteria may be based on factors such as location of the obligor, contract term, payment schedule, interest rate, financing program, the type of financed vehicle, and whether the contracts are active and in good standing (e.g., when the obligor is not more than 30-days delinquent or bankrupt). Generally, Ford Credit selects the assets to be included in a particular securitization randomly from its entire portfolio of assets that satisfy the applicable eligibility criteria. Specific assets are usually not identified until the month in which the securitization occurs.

Ford Credit provides various forms of credit enhancements to reduce the risk of loss for securitization investors. Credit enhancements include over-collateralization (when the principal amount of the securitized assets exceeds the principal amount of related asset-backed securities), segregated cash reserve funds, subordinated securities, and excess spread (when interest collections on the securitized assets exceed the related fees and expenses, including interest payments on the related asset-backed securities). Ford Credit may also provide payment enhancements that increase the likelihood of the timely payment of interest and the payment of principal at maturity. Payment enhancements include yield supplement arrangements, interest rate swaps, liquidity facilities, and certain cash deposits. Ford Credit has no direct exposure to monoline insurance companies (insurance companies that operate in a single industry and guarantee the timely repayment of bond principal and interest when an issuer defaults).

Ford Credit retains interests in its securitization transactions, including senior and subordinated securities issued by the SPE, rights to cash held for the benefit of the securitization investors (for example, a reserve fund) and residual interests. Residual interests represent the right to receive collections on the securitized assets in excess of amounts needed to pay securitization investors and to pay other transaction participants and expenses. Ford Credit retains credit risk in securitizations because its retained interests include the most subordinated interests in the securitized assets, and are structured to absorb expected credit losses on the securitized assets before any losses would be experienced by investors. Based on past experience, Ford Credit expects that any losses in the pool of securitized assets would likely be limited to its retained interests.

Ford Credit is engaged as servicer to collect and service the securitized assets. Its servicing duties include collecting payments on the securitized assets and preparing monthly investor reports on the performance of the securitized assets and on amounts of interest and/or principal payments to be made to investors. While servicing securitized assets, Ford Credit applies the same servicing policies and procedures that Ford Credit applies to its owned assets and maintains its normal relationship with its financing customers.

Ford Credit generally has no obligation to repurchase or replace any securitized asset that subsequently becomes delinquent in payment or otherwise is in default. Securitization investors have no recourse to Ford Credit or its non-securitized assets for credit losses on the securitized assets and have no right to require Ford Credit to repurchase their investments. Ford Credit does not guarantee any asset-backed securities and has no obligation to provide liquidity or make monetary contributions or contributions of additional assets to its SPEs either due to the performance of the securitized assets or the credit rating of its short-term or long-term debt. However, as the seller and servicer of the securitized assets, Ford Credit is obligated to provide certain kinds of support to its securitizations, which are customary in the securitization industry. These obligations consist of indemnifications, repurchase obligations on assets that do not meet eligibility criteria or that have been materially modified, the mandatory sale of additional assets in revolving transactions and, in some cases, servicer advances of interest shortfalls or other amounts.

Risks to Continued Funding under Securitization Programs. The following securitization programs contain structural features that could prevent Ford Credit from using these sources of funding in certain circumstances:

- Retail Securitization. If the credit enhancement on any asset-backed security held by FCAR is reduced to zero, FCAR may not purchase any additional asset-backed securities and would wind down its operations. In addition, if credit losses or delinquencies in Ford Credit's portfolio of retail assets exceed specified levels, FCAR is not permitted to purchase additional asset-backed securities for so long as such levels are exceeded.

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

- Retail Conduits. If credit losses or delinquencies on the pool of assets held by a conduit exceed specified levels, or if the level of over-collateralization for such pool decreases below a specified level, Ford Credit will not have the right to sell additional pools of assets to that conduit.

- Wholesale Securitization. If the payment rates on wholesale receivables are lower than specified levels, or if there are significant dealer defaults, Ford Credit will be unable to obtain additional funding and any existing funding would begin to amortize.

- Retail Warehouse. If credit losses or delinquencies in Ford Credit's portfolio of retail assets exceed specified levels, Ford Credit will be unable to obtain additional funding from the securitization of retail installment sale contracts through its retail warehouse facility (i.e., a short-term credit facility under which draws are backed by the retail contracts).

- Flat Revolving Structures in Europe. If credit losses or delinquencies on FCE's assets used for these structures exceed specified levels, or if FCE fails to add the required amount of additional assets, or if cash reserves fall below certain levels, FCE will be unable to obtain additional funding and any existing funding would begin to amortize.

- Variable Funding Note Structures in Europe. If credit losses or delinquencies on FCE's assets used for these notes exceed specified levels, or if payment rates on FCE's wholesale receivables are lower than specified levels, or if cash reserves fall below certain levels, FCE will be unable to obtain additional funding and any existing funding would begin to amortize.

In the past, these features have not limited Ford Credit's ability to use securitization to fund its operations.

In addition to the specific transaction-related structural features discussed above, Ford Credit's securitization programs may be affected by the following factors: market disruption and volatility, the market capacity for Ford Credit and Ford Credit's sponsored investments, the general demand for the type of assets supporting the asset-backed securities, the availability of committed liquidity facilities, the amount and credit quality of assets available, the performance of assets in its previous securitizations, accounting and regulatory changes, and Ford Credit's credit ratings. In addition, a bankruptcy of Ford, Ford Credit, or FCE would cause certain of Ford Credit's funding transactions to amortize and result in a termination of certain liquidity commitments. If, as a result of any of these or other factors, the cost of securitization funding were to increase significantly or funding through securitizations were no longer available to Ford Credit, it would have a material adverse impact on Ford Credit's financial condition and results of operations, which could adversely affect its ability to support the sale of our vehicles.

On-Balance Sheet Arrangements

Most of Ford Credit’s securitization programs do not satisfy the requirements for accounting sale treatment and, therefore, the securitized assets and related debt are included in Ford Credit’s financial statements. Ford Credit expects its future securitizations to be on-balance sheet. Ford Credit believes on-balance sheet arrangements are more transparent to its investors. Securitized assets are only available to repay the related asset-backed debt and to pay other securitization investors and other participants. These assets are not available to pay Ford Credit’s other obligations or the claims of its other creditors until the associated debt or other obligations are satisfied. This debt is not Ford Credit’s legal obligation or the legal obligation of its other subsidiaries. Assets and associated liabilities related to Ford Credit's on-balance sheet securitizations are as follows (in billions):

	December 31, 2008	December 31, 2007
Total outstanding principal amount of finance receivables and net investment in operating leases included in on-balance sheet securitizations	$ 89.3	$ 86.1
Cash balances to be used only to support the on-balance sheet securitizations	5.5	4.7
Debt payable only out of collections on the underlying securitized assets and related enhancements	72.2	69.2

See Note 16 of the Notes to the Financial Statements for more information regarding on-balance sheet securitizations.

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

Off-Balance Sheet Arrangements

We have entered into various arrangements not reflected on our balance sheet that have or are reasonably likely to have a current or future effect on our financial condition, results of operations or liquidity. These include securitizations by Ford Credit in off-balance sheet transactions, variable interest entities ("VIEs") and guarantees. For a discussion of our VIEs and guarantees, see Notes 11 and 29, respectively, of the Notes to the Financial Statements.

In 2008, Ford Credit did not enter into any off-balance sheet arrangements (off-balance sheet securitization transactions and whole-loan sale transactions), which is consistent with its plan to fund securitizations through on-balance sheet transactions. In 2008, income related to off-balance sheet arrangements reported in Financial Services revenues was $199 million compared with $391 million in 2007, a decline of $192 million. The decline primarily reflected amortization of the off-balance sheet securitization portfolio. Securitized off-balance sheet receivables were about $600 million and $6 billion at December 31, 2008 and 2007, respectively.

Total Company

Stockholders' Equity. Our stockholders' equity was negative $17.3 billion at December 31, 2008, a decline of about $22.7 billion compared with December 31, 2007. The decline primarily reflected unfavorable changes in Retained earnings, due to our 2008 net loss and unfavorable changes in Accumulated other comprehensive income/(loss) primarily related to currency translation and pension and OPEB adjustments, offset partially by changes in Capital in excess of par value of stock, primarily the issuance of stock. See the Consolidated Statement of Stockholders' Equity in our Financial Statements for details of Comprehensive income/(loss).

Credit Ratings. Our short- and long-term debt is rated by four credit rating agencies designated as NRSROs by the SEC:

- DBRS Limited ("DBRS");
- Fitch, Inc. ("Fitch");
- Moody’s Investors Service, Inc. ("Moody’s"); and
- Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P").

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

The following ratings actions were taken in the fourth quarter of 2008:

Ford

§ DBRS In November 2008, DBRS lowered Ford's long-term rating to CCC from CCC (high) and maintained Ford's trend at Negative.

§	Fitch	In October 2008, Fitch lowered Ford's long-term rating to CC from CCC+ and maintained Ford's outlook at Negative
§	Moody's	Moody's lowered Ford's long-term rating to Caa2 from Caa1 in November 2008 and to Ca from Caa2 in December 2008. Moody's maintained Ford's outlook at Negative.
§	S&P	In November 2008, S&P lowered Ford's long-term rating to CCC- from CCC and maintained Ford's outlook at Negative.

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

Ford Credit

- § DBRS In November 2008, DBRS lowered Ford Credit's long-term rating to B (low) from B, lowered Ford Credit's short-term rating to R-5 from R-4 and maintained Ford Credit's trend at Negative.

- § Fitch In October 2008, Fitch lowered Ford Credit's long-term rating to B- from B+, lowered Ford Credit's short-term rating to C from B and maintained Ford Credit's outlook at Negative.

- § Moody's Moody's lowered Ford Credit's long-term rating to B2 from B1 in October 2008, to B3 from B2 in November 2008, and to Caa1 from B3 in December 2008. Moody's maintained Ford Credit's outlook at Negative.

- § S&P In November 2008, S&P lowered Ford Credit's long-term rating to CCC+ from B- and maintained Ford Credit's outlook at Negative.

The following summarizes certain of the credit ratings and the outlook presently assigned to Ford and Ford Credit by these four NRSROs:

NRSRO DEBT RATINGS

Ford				Ford Credit
Issuer Default/ Corporate/ Issuer Rating	Long-Term Senior Unsecured	Senior Secured	Outlook / Trend	